

## Tilburg University

### **The perceived cultural changes and the changes in identification of the employees during a merger between two airlines**

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**The perceived cultural changes and the changes in identification of the employees during a merger between two airlines**

# **The perceived cultural changes and the changes in identification of the employees during a merger between two airlines**

## **PROEFSCHRIFT**

ter verkrijging van de graad van doctor aan de Universiteit van Tilburg, op gezag van de rector magnificus, prof.dr. Ph. Eijlander, in het openbaar te verdedigen ten overstaan van een door het college voor promoties aangewezen commissie in de aula van de Universiteit op maandag 30 augustus 2010 om 14.15 door

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*To my parents*

## **Preface**

This dissertation is a result of extensive collaborative work with a research team, and the cultivation of the data from an individual focus and research question.

The research plan was developed by Niels Noorderhaven and Philippe Monin in collaboration with Air-France-KLM and involved a large scale data collection process that could only be executed with a number of researchers. I was honoured to be one of them, and was able to be present during the entire implementation of the data collection process, and even at most of the preliminary meetings.

This kind of international research meant a lot of travelling and an almost endless number of meetings with employees, managers, general managers and members of the research team, resulting in an elaborate network of helpful friends. Doing so next to a full-time job as lecturer at the university was challenging and sometimes the goal seemed almost impossible to achieve.

That I did reach my goal I owe for a great deal to the guidance of Niels Noorderhaven. He was always very specific and clear in setting criteria so that I was able to learn and improve in every step on the way. He also managed to do this in an efficient way, by being neither too hasty nor too elaborate. He challenged and motivated me.

I am very grateful to my committee members: Bart Vos, Sytse Douma, Niels Noorderhaven, Philippe Monin and Gerard Rooijakkers for their comments and I am very proud that they gave their approval for this dissertation. The diversity of their perspectives enriches my own view.

The department Organization and Strategy of the Faculty of Economics and Business of the Tilburg University was expanding substantially during my research period and I spend a lot of stimulating and motivating moments with my colleagues who shared their experiences with me.

I like to thank all my colleagues for their support. And I would like to express my gratitude especially to Aswin van Oijen, Zilin He, Gert Nieuwenhuis and Mark Overboom for their advice concerning statistical issues and to Eric Dooms, Cindy Kuijpers, Astrid Kramer and Marloes Röthengatter for all their support.

At KLM many employees and managers were very helpful during each round, but some members of the organization gave me a particular amount of support. Michael Pantlin has supported the project from the start up to the present day, and he has opened many doors within KLM for our research team. Pier de Groot was very welcoming and helpful during my visits to the KLM crew center. Saskia Verschuren and Hannie Bult were so meticulous in arranging schedules for meetings with interviewees of their departments that we were able to win a considerable amount of time. Brigitte Bancken has been very supportive and I enjoyed our conversations. Rob Regter was very helpful in being an insightful respondent as well as in motivating members of his department to respond. We enjoyed the hospitality of six European establishments several times, and Vincent Knoops (at that time general manager in the UK) personally welcomed us every time. And last but not least Hilda Borst-Slingerland arranged a lot of general meetings and travel possibilities for us. Thank you all.

Working with an international diverse research team was a rich learning experience. The meetings were mostly in Paris, therefore it took for both teams a lot of travelling time. The meetings that took place were very elaborate. It provided us with interpretations of and reflections on the data and the research process. I enjoyed our discussions very much. On top of that Audrey and I worked a lot together during her exchange period at our university. I am very happy with the friendship of Philippe Monin, Audrey Rouzies and Tessa Melkonian and hope to work with them again in the future. Guillaume Soenen joined the French team in the last round and although my meetings with him were rare I did enjoy them. In our Dutch team David Kroon joined us in the last round and I value him as a helpful and pleasant colleague.

I can't help thinking of my parents and I know that they would have been proud of me if they would still have been alive. They of course gave me the stamina that I have now. I will always miss them. It makes me happy that I can thank my sister Lydia for her mental support during several difficult moments. My parents will always be in my mind and my heart and I am honored to dedicate this dissertation to them.

Alma Timmers

Tilburg, July 2010

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## **Chapter One: Introduction.**

Nowadays for most organizations it is becoming more and more necessary to engage in mergers or acquisitions (M&As) in order to grow or to survive. This seems to be the common belief, notwithstanding the failure of many M&As. Research indicates percentages of failure ranging from 56% to 83 % (Cartwright & Cooper, 1994; Tetenbaum, 1999; Epstein, 2004; Cartwright & Schoenberg, 2006; Sirower, 2006; Rottig, 2007). This wide range of failure percentages is at least in part a result of unclear measurements of success. Who benefits (e.g., the target's shareholders or those of the acquirer), and what is included in the measure of success? When is the M&A-outcome measured, what is the right time to measure and what is too early or too late? What were the motives for the M&A and are these captured by the measures of success employed? The last remark reminds us that there are different kinds of M&As. Throwing all M&As on one heap does not help us to obtain a better understanding of the factors leading to their success or failure.

In order to get a glimpse of the complexity of the subject: mergers and acquisitions, this introductory chapter will give a brief overview of possible types of M&As, different motivations for M&As, developmental processes of M&As, various aspects of post-M&A integration processes, like the speed of integration and the distinction between task and human integration, and steps in the M&A process, from the first decision through the whole integration process (Risberg, 2003). We will argue that in order to understand the factors leading to the ultimate success or failure of M&As, it is necessary to study the post-merger integration process over longer time periods than what has been done in most studies so far.

When the focal issue is, change caused by an M&A and the experiences of the employees during this change, it will lead to observing the abstract total as well as the emotional integrated total. Thus observing the organizational culture as an abstract concept outside individuals and identity as a concept inside individuals, will lead us eventually to the

problem statement in which we concentrate us on organizational culture and identity changes in the integration period of a merger:

**How do organizational culture and identity factors influence employee responses in the post-merger integration processes?**

## **1.1 Differences between mergers and acquisitions**

Mergers and acquisitions are often discussed together (“M&As”), but actually the two concepts differ quite clearly. A merger is “a statutory combination of two (or more) corporations, either by the transfer of all assets to one surviving corporation or by the joining together of the companies into a single new enterprise” (Gertsen, Søderberg & Torp, 1998: 17). A merger is often assumed to represent a more cooperative agreement between two partners acting as equals. The organizations are usually more closely matched in terms of size and other relevant aspects than in the case of acquisitions. But in practice this does not mean that power is equally shared (Cartwright & Cooper 1996, Gertsen et al., 1998).

When one company buys another company this is called an acquisition. The power relationship in this case seems more clear-cut. The buying company is the dominant party. Cartwright and Cooper (1996) even suggest that there are clear winners and losers in the sense that power is immediately surrendered by the acquired company to the new “parent”. But also in this case the borderlines are not that clear; sometimes the acquired company can become the dominant partner (Gertsen et al., 1998). Most of the researchers tend to treat the terms “merger” and “acquisition” as synonyms. Cartwright and Cooper (1996) explain this by comparing the practice of a merger with that of a marriage, in which also one partner will often dominate the other in some way or another.

Summarizing the above, mergers and acquisitions can be seen as two concepts with different meanings, but in spite of these differences M&As share a wide range of problems, especially in the area of culture differences and identity issues, the two foci of

this dissertation. Therefore researchers mostly analyze M&As as a single category, and they will in this dissertation also be treated as such.

## **1.2 Growth of M&As**

M&As are becoming increasingly popular (see, e.g., Scherer, 2006). In 2004 about 30,000 M&As were completed worldwide (Cartwright & Schoenberg 2006). The extent to which all of these M&As can be called successful, however, is still in debate. King, Dalton, Daily and Covin (2004) on the basis of a meta-analysis of 93 empirical studies conclude that M&As do not on average positively contribute to the acquiring firm's performance. But, on the other hand, M&As seem to be not necessarily more difficult to successfully execute than alternative strategies for business growth (King et al., 2004). Montgomery and Wilson (1986) conclude that the majority of the mergers that were consummated in 1960 were still un-reversed by the end of 1982. So, if longevity is taken as an indicator of success, the picture seems to be rosier. Clearly success is difficult to define and to measure. Should the fact that a combination is still intact be taken as a good measure of success? Or do we rather have to look at the financial results? Or do we need to take the perspectives of employees into account? Examples of research looking at the employee perspective have focused, among other things, on culture (Nahavandi & Malekzadeh, 1988), communication (Schweiger & DeNisi, 1991), career implications (Walsh, 1989) conflict resolution (Meyer 2006; Mirvis, 1985), psychological and behavioral effects (Seo & Hill, 2005), and knowledge transfer (Ranft & Lord, 2002).

Hogan and Overmeyer-Day (1994) give an overview of the several possibilities to measure success:

Objective measures:	ROI – return on investment
	ROA – return on assets
	Stock price fluctuation
	Change in market shares
	Employee turnover and absenteeism

Subjective measures:	Job satisfaction
	Commitment
	Stress
Employee Perceptions:	Career opportunities
	Autonomy
	Power
	Job security

The use of accounting data, as in the first two objective measures mentioned by Hogan and Overmeyer-Day (1994), can be criticized. These are historical data and therefore reflect past performance. That means that future earnings are not estimated. Furthermore control groups are difficult to employ and accounting figures are highly aggregated, making it difficult to isolate effects (Montgomery & Wilson, 1986). Using stock price fluctuations therefore became more popular in the seventies. It appears to be that gains for the (shareholders of) acquired firms in this respect are higher than the gains for the acquiring firms (King et al., 2004; Montgomery & Wilson, 1986). Change in market share can be seen as an objective indicator of M&A success but there seems to be an inability to separate the effect of the M&A from other influences. Turnover and absenteeism is mostly used as an objective measurement of human resource-related outcomes. But these phenomena are subject to fluctuations, instabilities and inconsistencies and it is questionable what an appropriate time following an M&A would be to collect the data (Hogan & Overmeyer-Day, 1994).

Another form of measuring success is taking subjective measures, which can be done in the form of measuring the experiences of the employees. These measures of success focus for instance on satisfaction (Covin, Sighler, Kolenko & Tudor, 1996), commitment or stress (Schweiger & Denisi, 1991; Panchal & Cartwright, 2001; Buono & Nurick, 1992; Appelbaum, Lefrancois, Tonna & Shapiro, 2007). Schweiger and Denisi for instance demonstrated that information about the merger reduced the anxiety of the employees (1991). The perception of the employees is often linked to the “penultimate” (Hogan & Overmeyer-Day, 1994: 251) outcomes, meaning the outcomes that are

believed to be the cause of the ultimate outcomes of the merger. Examples are experiences of power (Vaara, Tienari, Piekkari & Santti, 2005), autonomy, which is mostly referred to as a loss of control or “controlled empowerment” (Buono & Nurick, 1992: 25), experiences of job security and perceptions of career opportunities in the new situation. Empirical explorations of the perceptions of employees mostly employ self-reported surveys. The disadvantage is that the results may be affected by biases. The respondents with a positive frame of reference, for instance as a result of new job opportunities, may evaluate the merger more positive, also in other dimensions (Hogan & Overmeyer-Day, 1994).

Most of the research mentioned above resulted in mixed messages regarding success, but in spite of these mixed messages firms are still massively engaging in M&A activities. What are the motivations to do so?

### **1.3 Motivations**

What motivates firms to continue to engage in M&As, in spite of the many failures? This question is subject to much speculation. It seems that there are publicly stated motives and more hidden motives. Angwin (2001: 34) phrases it as follows: “... motives interact and are complex rather than singular and yet, publicly, they are aimed at achieving the rational outcomes of improved performance and increased shareholder value”.

Publicly stated motives for M&As are: establishing a presence in a new geographic area (mainly for cross-border deals), gaining critical size, acquiring technology and know-how, building market share, and more generally strengthening the business (Angwin, 2001). The main reason according to Marks and Mirvis (2001) is speed: “the union will provide for attainment of strategic goals more quickly and inexpensively than if the company acted on its own”. Furthermore, these authors emphasize that: “combinations also are able to gain flexibility, leverage competencies, share resources and create opportunities that otherwise would be inconceivable” (Marks & Mirvis, 2001: 80).

Organizations engaging in M&As anticipate some form of value creation. There seems to be a potential to cut costs and to improve efficiency. And this potential, even if it is



extremely uncertain, draws many organizations into M&As (Tetenbaum, 1999). But there can also be hidden motives like the pursuit of power by managers, or even potential personal financial benefits. Cartwright and Cooper (1996: 21) mention the “fear of obsolescence”, meaning that in order to restore their self-confidence; senior executives have to engage in an acquisition or merger. Sidestepping these more hidden motives, and focusing on value creation as the more common motive, there are several possible kinds of M&As, characterized by different types of value creation

## 1.4 Kinds of M&As

Some researchers use the Federal Trade Commission’s Statistical Report on Mergers and Acquisitions (1975) as a reference to describe five categories of relationships between the acquiring and acquired firms (Montgomery & Wilson, 1986; Risberg, 2003):

1. *Horizontal.* The companies produce the same or closely related products.
2. *Vertical.* The companies have a buyer-seller relationship.
3. *Product extension.* The firms are functionally related in production and/or distribution but sell products that do not directly compete with one another.
4. *Market extension.* The companies manufacture the same products, but sell them in different geographic markets.
5. *Unrelated.* There is no relation between the companies.

The F.T.C. describes the categories above as mutually exclusive.

Cartwright and Cooper (1996) use slightly different categories:

1. *Horizontal*
2. *Vertical*
3. *Concentric* Firms are in a different but related field. The acquiring company wishes to expand.
4. *Conglomerate* The companies are completely unrelated.

During the sixties and seventies the combinations tended to be of the conglomerate, unrelated type, later the bulk of M&As shifted to combinations of more similar firms. This is important, because it indicates that M&A success became more heavily dependent on the realization of human synergy because integration in this combination type will likely entail a fusion of all the human resources of the companies (Cartwright & Cooper, 1996). Gertsen et al. (1998) refer to this as a shift of the predominant strategic goal from diversification to achieving synergy and advantages of large-scale operations. The more recent combinations therefore require more integration of departments of the organizations involved, such as finance, marketing, and personnel. Cultural integration is consequently also more important within these M&As (Gertsen et al., 1998).

There is some evidence that unrelated mergers are less successful. Porter (1987) examined four strategies to diversify, and successful diversifiers made a low percentage of unrelated acquisitions (Di Giorgio, 2002). But a study of 434 large acquisitions by U.S. firms only confirmed that unrelated acquisitions were resold at a slightly higher, but statistically insignificant, rate than related acquisitions (Montgomery & Wilson, 1986). This same study also showed a majority of unreversed mergers over a period of twenty years, as discussed earlier.

This brings us back to the debate of M&A success. But despite the doubts regarding the success of many M&As, many organizations still decide to merge or engage in an acquisition. This decision is part of an elaborate process that can be described in several phases.

## **1.5 Developmental processes**

Many researchers refer to the total merger process as a process in several stages. The first phase is seen as the negotiation period. This stage is referred to as the “pre-acquisition stage”, the “anticipatory stage”, “pre-merger stage”, “pre-combination phase” or “negotiation stage” (Appelbaum, Gandell, Yortis, Proper & Jobin, 2000; Fugate, Kinicki & Scheck, 2002; Marks & Mirvis, 2001; Angwin, 2001). In this period there is a tendency to let “hard” criteria prevail. Therefore several researchers stress the importance

of due diligence (Marks & Mirvis, 2001; Tetenbaum, 1999; Angwin, 2001). Due diligence is seen as an objective and independent examination of the acquisition target. The areas that are customarily examined are: industry, competitive environment, history and development, management and personnel, financial performance, assets values, accounts and accounting policies, and information systems. The purpose of due diligence is to uncover issues like inaccurate inventory assessment, puffed-up financial accounts, weak cash flows, and so forth. In cross-border deals several additional issues may play a role. This may involve issues like: exchange rates, complexities of assessing economic and political framework, tax complications, language and assessing different national accounting systems. Therefore organizations tend to work with professional advisors in the due diligence process (Angwin, 2001).

There are several perspectives on the timing of due diligence. Some see it as a process taking place after an agreement has been made between the two parties (Tetenbaum, 1999). Others regard it part of the pre-acquisition process (Angwin, 2001; Marks & Mirvis, 2001). There is even some disagreement about the concept of “due diligence” itself. Whereas many authors see it as an examination of the “other” company, Marks and Mirvis (2001: 84) stress the importance of measuring the capacity of both companies: “Proper due diligence ascertains first the extent to which the candidate’s system has the capacity to meet its own current and future business needs, and then considers the compatibility between the two sides’ systems right now and following anticipated growth.” In this premerger stage the importance of the national- and organizational cultural differences will also become visible, and these are stressed to be important issues to analyze in the due diligence process (Angwin, 2001).

The demarcation of the second stage differs between researchers, some see it as the merger itself, and label it with terms like: “combination phase” (Marks & Mirvis, 2001), “during merger” (Appelbaum et al., 2000), and “integration” (DiGeorgio, 2003). Others subdivide the second phase in stages like “initial” and “final change stage”. (Fugate et al., 2002).

The last stage is seen as the period where the merger is final. The combination of the two companies is complete. The new organization can be seen as one entity. This period is referred to as the “post-merger stage” (Appelbaum et al., 2000), “post-combination phase” (Marks & Mirvis, 2001) or “aftershock stage” (Fugate et al., 2002).

The labeling of the stages depends partly on the focus of the researcher. Most attention is often paid to the top managers who are negotiating the deal, but the “victims” of the M&A decisions, the employees, also live through several periods. Sometimes these are compared to a mourning process. When people grieve they go through a process of denial, anger, bargaining and acceptance. And this same process can be seen as being experienced by many managers and other employees of firms going through an M&A process (Appelbaum et al., 2000, Cartwright & Cooper 1996).

One could also question whether M&A processes can really be meaningfully subdivided in phases. The process could also be more seamlessly ongoing, and it could very well be different for different departments, so that the phases will not be as clear as they might seem to be. It is also possible that the process is iterative, with periods of renegotiations occurring also during the integration process. Ring and Van de Ven (1994: 98) refer to these renegotiations as: “new supplemental agreements that are typically established to resolve only the contested issues”. In sum the distinction of different phases can be seen as useful demarcations in as far as they are linked to different types of activities taking place in the M&A process, but it can also give an illusion of clarity. The phases an M&A process will go through also depend on the level of integration that the merging companies try to accomplish. We will now turn to this issue.

## **1.6 Integration types**

When two companies merge the goal will be most of the time to integrate the two companies into a single unit. Shrivastava (1986) regards managing this integration effectively as the primary problem of an M&A. He stresses the fact that integration can be done by combining the accounting systems as well as physical assets like product lines, product systems and technology. But the most critical type of integration is seen by

Shrivastava to be the cultural integration, which he refers to as part of the managerial and sociocultural integration, defining it as: “ [a] complex combination of issues related to the selection or transfer of managers, the changes in organizational structure, the development of a consistent corporate culture and a frame of reference to guide strategic decision-making, the gaining of commitment and motivation from personnel and the establishment of new leadership” (1986: 70). The integration of two organizations during an M&A involves the process of collaboration of the two merging companies. This can express itself on several fields and it can be typified in several manners. Increasing attention is being paid to the process perspective on M&As, which focuses on the guidance of the post-acquisition integration process. Other approaches are: the capital market school, the strategic management school, and the organizational behavior school (Birkinshaw, Bresman & Håkanson, 2000). In the post-combination integration process mostly culture clashes and conflict resolution are highlighted (Larsson & Finkelstein 1999). The process perspective field explores several types of integration.

The type of integration depends on the agreed upon level of autonomy of the merging companies, and especially that of the acquired company. But whereas “agreed upon” seems to refer to decisions made by top management, integration issues also have to do with the degree of merger acceptance of the employees, as well as their need of independence.

Haspeslagh and Jemison (1991) combine the need for organizational autonomy with the need for strategic interdependence to distinguish four different approaches to integration.

**Table 1.1:** Source: Haspeslagh and Jemison (1991)

		Need for Strategic Interdependence	
		Low	High
Need for Organizational Autonomy	High	<b>Preservation</b>	<b>Symbiosis</b>
	Low	<b>Holding</b>	<b>Absorption</b>

In *preservation* M&As the acquired operations are managed at “arm’s length”. This involves financial/risk sharing and general management capability transfer (Haspeslagh & Jemison 1991: 148).

In *symbiotic* M&As the two organizations first coexist and then become gradually more interdependent. Symbiotic acquisitions need boundary preservation as well as boundary permeability. The need to preserve autonomy can be gradually lifted but this can only be done by the acquired company to the extent that it changes its own organizational practices to adapt to the new situation.

The *holding* situation exists when the acquired firm has no intention of integrating through anything except financial transfers, risk-sharing or general management capability.

The *absorption* M&As imply a full consolidation over time of the operations, organization, and culture of both organizations.

Haspeslagh and Jemison do not include the perception by the acquired company in their categorization, but they do bring up the notion that integration does not have to mean “make them look like us” (observation by Risberg, 1999). This means that the need for

organizational autonomy is not as clear-cut as it seems. It can be argued that autonomy removal is a necessary part of the acculturation process or an obstacle that slows this process down. According to Larsson and Lubatkin (2001) autonomy removal is not always an impediment to achieving acculturation. What they consider necessary in that case is that the removal is coupled to a high level of informal control so that this form of informal communication can lead to a jointly determined culture.

The type of integration is often linked to the adaptation process of acculturation, which refers to the blending of the organizational cultures. The four possibilities that are often mentioned are:

- |                       |                                                                                                                                     |
|-----------------------|-------------------------------------------------------------------------------------------------------------------------------------|
| <i>Assimilation:</i>  | The non-dominant group gives up its identity                                                                                        |
| <i>Integration:</i>   | The non-dominant group maintains its own culture but also becomes an integral part of the dominant culture                          |
| <i>Rejection:</i>     | The non-dominant group withdraws from the dominant group                                                                            |
| <i>Deculturation:</i> | The non-dominant group loses its own culture and does not adapt to the culture of the other organization.<br>(Gertsen et al., 1998) |

Nahavandi and Malekzadeh (1988) combine different levels of acculturation with the perception of attractiveness of the other party and the value the members of the organization place on their own culture and by modifying the matrix of Berry (1983) suggest four possibilities:

**Table 1.2:** Source: Nahavandi and Malekzadeh (1988)

How much do members of the acquired firm value preservation of their own culture?		Very much	Not at all
Perception of the attractiveness of the acquirer	Very attractive	<b>Integration</b>	<b>Assimilation</b>
	Not at all attractive	<b>Separation</b>	<b>Deculturation</b>

When members of the acquired firm want to remain independent and autonomous this may lead to *integration*. It involves interaction and adaptation and mutual contributions by both groups but does not mean that either of the groups loses their cultural identity. This process can only occur if the acquirer allows such independence.

*Assimilation* will occur when members of the acquired organization willingly adopt the identity and culture of the acquiring firm. This means that they will relinquish their own culture.

*Separation* can be the result of refusal to become assimilated with the acquirer in any form or at any level. It means that there will be minimal cultural exchange between the two firms. Each will function independently.

When members of the acquired firm do not value their own culture but do not want to be assimilated into the acquiring firm either, this can lead to *deculturation*. The result will be a disintegration of the acquired company as a cultural entity.

This acculturative model of Nahavandi and Malekzadeh (1988) provided several hypotheses that involved the success of a merger by linking it to the varying degrees of relatedness. For example they presume that an unrelated acquisition can turn out to be successful if the separation mode is adopted.



Marks and Mirvis (2001) suggest different kinds of end states, and link these to the degree of change in both companies. Their possibilities are as follows:

**Table 1.3:** Source Marks and Mirvis (2001)

		Degree of change in the acquiring company		
		Low		High
Degree of change in the acquired company	High	<b>Absorption</b>		<b>Transformation</b>
			<b>Best of Both</b>	
	Low	<b>Preservation</b>		<b>Reverse Takeover</b>

*Absorption* is an equivalent of the assimilation state of Malekzadeh and Nahavandi (1988) and Gertsen et al. (1998) and the absorption state of Haspeslag and Jemison (1991). The parent company absorbs the acquired company and generally brings in new management.

*Transformation* is a sharp break from the past. It is a fundamental change of both companies. Marks and Mirvis (2001) describe this kind of post-combination change as a process of reinventing the company.

The “*best of both*” seems to be a good option in the sense that the achieving of synergies is optimal, but according to Marks and Mirvis (2001) this can also be “the bloodiest option” (pg. 86). It means: “crunching functions together” (pg.86), and that often leads to a reduction in the number of jobs.

*Preservation* is found in diversified firms that promote cultural pluralism. The acquired firm retains most of its ways of doing business. It can be compared with the separation state of Nahavandi and Malezadeh (1988).

*The reverse takeover* is according to Marks and Mirvis (2001) an unusual type but it does occur. It is when the acquired company takes the lead in the cultural change. It mostly involves the absorption of a parallel unit of the acquiring company by the acquired firm.

The models discussed above seek to clarify the process of the blending of merging organizations and one can argue that the higher the degree of integration sought, the more difficult it becomes to achieve success (DiGeorgio, 2002). But of course these models simplify the complexity of what really happens. That is probably the reason why so many different categorizations exist. The perspective assumed is either that of the acquiring company, that of the employees of the acquired company, or of both organizations. And the issues that are deemed to be relevant are: the degree of autonomy, the perception of the other company, the value of the other company, and the value of the former company (both as perceived by employees). Another integration-related issue that is not reflected in the categorizations but sometimes believed to be crucial is that of the speed of integration.

## **1.7 Speed of integration**

A possible fear of the acquiring company is that the acquisition process will slow the whole company down. This fear is aggravated by a feeling of uncertainty: “There is always something uncertain about precisely what has been bought – who they are, what they do, whether they really know how to run their business. Corporate staffers pounce on the target to get their hands on things in a hurry” (Marks & Mirvis, 2001: 87). In many mergers there seems to be a productivity drop of 25 to 50 %. This productivity drop can be caused by several reactions of employees, like preoccupation with self-interest and distraction from work. These reactions are the result of a psychological shock. This whole process is referred to as “post-merger drift”. Integration-related tasks might distract management attention away from the firm’s business and delay important decisions (Ranft & Lord, 2002, Tetenbaum, 1999). According to Tetenbaum (1999), people expect change and when this does not occur, employees become preoccupied with security issues.

The dangers mentioned above seem to provide a good argument for a speedy postmerger integration. This is reinforced by other arguments. For instance, the enthusiasm of stakeholders tends to be at its highest shortly after the completion of the merger. Proceeding quickly with the integration could then capitalize on this early enthusiasm. Another argument would be that spending less time in a sub-optimal condition means less instability and fewer costly readjustments. It also means less exposure to uncertainties of the external environment. If a company is “at war with itself” (Angwin, 2004: 420) it can be severely hampered to respond effectively to pressures (for instance political or competitive) from the environment. But a recent study of a population of 232 corporate acquisitions which took place in the UK between April 1991 and March 1994 did not provide strong support for the importance of speed during the first 100 days after a merger (Angwin, 2004). There only seemed to be an association between the “volume of changes” (p. 426) (meaning the number of successful changes made in several areas of the company) made in the first 100 days and the perceptions of acquisition success in the third and particularly the fourth year of life. This means that with the passing of time the views of the top executives on the causes of acquisition success will change, possibly because their views become less clouded by the hectic events. But Angwin (2004) stresses in this respect the impossibility to rule out hindsight and survivor bias. This suggests that speed can not be seen as such an unambiguous concept as might be expected at first sight. It apparently depends on the expectations of the top executives of success in the first years.

In line with the above reasoning, DiGeorgio (2002) argues that a higher degree of integration will lead to a more difficult path towards success. “Pushing too quickly for integration, particularly on issues either very difficult to do or not that important to business results, can have negative consequences” (DiGeorgio, 2002: 144). Knowledge transfer in particular can be seen as one of the more complex operations in this respect. A few studies have investigated this topic (Lubatkin, Florin & Lane, 2001; Ranft & Lord, 2002) and stress the difficulty of protecting the technologies and capabilities of the acquired firm by means of autonomy on one hand and the need of transferring it to the acquiring firm on the other.

Looking at speed from the knowledge transfer perspective, one can argue for a slow and cautious acquisition. The knowledge-based resources are usually embedded in a socially complex structure and there is a risk that this structure might be altered during the acquisition integration. It could potentially damage or destroy the resources. For example, the knowledge-based resources could be contained in specific employees and their relationships, and as a result of a speedy acquisition these employees might leave. Ranft and Lord (2002) therefore provide a rationale for a slow acquisition process. Slow acquirers are able to engage in a period of learning and are able to integrate in this period the acquired firm's knowledge (Ranft & Lord, 2002).

Another line of reasoning would be to link speed to certain characteristics of the M&A. Homburg and Bucerius (2006) for instance argue that speed can have detrimental and beneficial effects depending on the level of relatedness of the merging firms. In their study based on a sample of horizontal M&As in Central Europe during the 1996 – 1999 period, they found that speed has a strong influence on success when the internal relatedness is high and the external relatedness is low. They explained the high internal relatedness in terms of the social identity theory meaning that people will seek membership in groups whose members are similar to themselves and members of their original group. This means that when the groups are more similar the speed of the integration process can be increased. The low external relatedness (which refers to the firms' target markets and their market positioning) was explained by Homburg and Bucerius (2006) in connection with customer uncertainty. If the external relatedness is low the range of possible implications is broader for the customer thereby increasing his uncertainty. A higher speed will then reduce this uncertainty sooner (Homburg & Bucerius, 2006).

All in all, the necessity of a speedy integration process seems to be a contested issue. It is possible to move too fast and destroy the knowledge assets that are crucial for a successful merger, but it is also possible to move too slow and lose a beneficial market position. The overall rule seems to be that an M&A between larger companies (or with a

large company as the target) will need more time for the integration process. If this is true, it also has implications for the study of these M&As. To gain insight in the whole period of integration will necessarily mean engaging in an extensive longitudinal research.

Several researchers have acknowledged the M&A process factor in their research. Apart from the different stages discussed earlier and the speed of integration issue, the distinction between task integration and human integration deserves to be discussed.

## **1.8 Distinguishing task integration and human integration**

Most researchers recognize the distinction between the technical-operational side of a merger and the human side of a merger. The technical-operational side focuses on creating synergies which means creating a new firm that is more than the sum of its parts. It involves actual net benefits (Larsson & Finkelstein, 1999), strategic fit or relatedness (Datta, 1991), which is defined by Jemison and Sitkin (1986: 146) as “the degree to which the target firm augments or complements the parent’s strategy and thus makes identifiable contributions to the financial and nonfinancial goals of the parent”. A rational decision-making process using the complementarities of both firms is assumed to create these synergies (Bierly & Gallagher, 2007). The human side focuses on the behavior of the employees (Buono & Bowditch, 1989; Cartwright & Cooper, 1994; Schweiger & Denisi, 1991) and the managers (Marks & Mirvis, 2000; Marks & Mirvis, 2001; Shrivastava, 1986; Jemison & Sitkin, 1986).

Birkinshaw et al. (2000) in their discussion of task and human integration issues, point at the connection between the two processes. Birkinshaw et al. define task integration as: “the identification and realization of operational synergies” and human integration as: “the creation of positive attitudes towards the integration among employees on both sides”. The concept of “identification” might create confusion, because it involves communication, sharing information and commitment to the idea of synergies, which seems strongly related to the human dimension. On the other hand “creating a positive attitude” seems a too narrow description of the concept human integration. It would be

clearer to define task integration as the procedures and structure that shape operational synergies and human integration as the communication and attitudes of the employees concerning synergies.

Despite the unclear definitions, the value of the research of Birkinshaw et al. (2000) is particularly apparent in their analysis of sequences of events during postmerger integration processes. The human integration process in the cases they studied appeared to facilitate the effectiveness of the task integration process. This means that if a task integration process is executed before a human integration process has begun the likelihood that problems will occur is high. Another interesting finding in their research is that according to the researchers an obsessive concern with the employee satisfaction may be misplaced. They stress that human integration is only a means in achieving synergies and not an end in itself. An argument in this respect was that the employees seemed to have a “zone of indifference”, that prevented a high turnover even in an unwanted acquisition.

In this dissertation the focus is on the human integration process, therefore a more elaborate discussion of this concept will be in the following section.

## **1.9 Human integration**

The importance of this aspect of the merger is underestimated in many M&As. The creation of value through strategic fit is the dominant goal of M&As, but failure of many M&As caused researchers to start analyzing the “human side” of mergers significantly deeper than before. However, the process proved to be extremely complex, and difficult to conceptualize. We will discuss this subject more in-depth in the next chapter from the perspective of organizational identity and culture, and here only briefly indicate a few different directions taken in the study of human integration in M&As.

Some scholars focus on the *expectations* of the employees of an organization involved in a merger. Dackert, Jackson, Brenner & Johansson (2003) found in their study that usually the larger organization was expected to dominate, because of its larger size and also

because its director generally became the director of the merged organization. Because of these expectations employees of the smaller organization felt more threatened. Hubbard and Purcell (2001) identified seven factors that are influential in shaping the expectations of employees. These seven factors are: quality of communication, believability of information, trust in management action, credibility of leadership, fairness of action, consistency of action and communication, and logic of management action or behaviour. The focus of the above study was on the acquired company.

Other researchers have concentrated on *stress* effects. They mainly refer to the stress that the employees feel after the announcement of the merger. The announcement is followed by a period of change and therefore a feeling of insecurity will develop. During this period the employees experience uncertainty with regard to the new situation. Feelings of fear and anxiety can be dominant (Tetenbaum, 1999). Very, Lubatkin and Calori (1996) refer to this phenomenon as a “disruptive tension” that is felt because employees are required to interact with the other organization, or they even have to adopt its culture. This acculturative stress seems to be more apparent in cross-national than in domestic mergers. On the other hand, Very et al. (1996) also found that sometimes national cultural differences elicit attraction, rather than stress. A few empirical studies have examined the difference in stress levels between the acquired and the acquiring company. The main result seems to be that the employees of acquired company were stronger affected. However a study of sales force employees conducted in Britain by Panchal and Cartwright (2001) found the contrary. The employees of the acquired firm had the most positive reactions. According to Panchal and Cartwright this divergent response might be explained from a cultural and identity perspective (Panchal & Cartwright, 2001). We will return to the issues of culture and identity in the pages to follow.

Marks and Mirvis (2001) focus on the importance of *transparency*. Announcing the desired final stage will clear the air and avoid misperceptions and fantasies. They argue that the worst mistake a buyer can make is “to talk merger and act acquisition” (Marks & Mirvis, 2001: 86). Although transparency seems important, the kind of clarity to be given to employees is not clear, nor how to achieve this.

Another example of concepts researchers have focused on is the *commitment* of the employees towards the new combination after the M&A announcement. Commitment was found to be related to perceived success of the organization, job security, tenure and perceived communication regarding the merger (Schraeder, 2001). The strongest relationship of commitment is with the perceived success of the organization (Fairfield-Sonn, Ogilvie & DelVecchio, 2002). Here, too, clarity and information seem to be important. But according to Fairfield-Sonn et al. (2002) this depends on the situation. In their study the type of union mattered. Commitment related negatively to a hostile environment (hostile acquisition). Surprisingly, however, in their study role-related variables had no impact on commitment. This means that an increase in workload and sometimes increasing task fuzziness did not have an influence on the commitment of the employees (Fairfield-Sonn et al., 2002).

*Satisfaction with the merger* has not been subject of extensive research. One study of Covin et al. (1996) regarding this subject had an interesting result. The authors studied a division of a large manufacturing company and in particular the extent to which the employees had adjusted to the M&A that had taken place two years prior to their study. They concluded that the employees of the acquired firm had significantly lower merger satisfaction scores than employees of the acquiring firm, despite the relatively high career future expectations with the acquiring firm. Furthermore they found that non-union employees were significantly more satisfied than employees who were union members. On the other hand they found that employees who showed characteristics associated with greater job mobility held more favorable attitudes toward the merger. (Covin et al., 1996).

The study of *impediments to integration* could be seen as the key to a better understanding of the process of human integration. Vaara (2003) concentrated on the irrational features that may impede the post-acquisition process. One of these was ambiguity. The negotiators and planners of an M&A are a different group in the organization than the unit managers. That the middle managers have another perspective



can be seen as a “normal state of affairs”, but it may be an impediment to integration. Another impediment could be that power struggles between various groups in the organization may give issues a political dimension (Vaara, 2003). Jemison and Sitkin (1986) argued in a review study that four important impediments to integration capture the process aspects of M&As: activity segmentation (technological complexity of the activities concerning an acquisition may lead to task segmentation and this may lead to a disproportionate attention on the strategic fit), escalating momentum (meaning that forces within an organization accumulate to complete the process quickly, which can result in premature solutions), expectational ambiguity (meaning that ambiguity during the negotiation phase can become dysfunctional in the integration phase), and management system misapplication (meaning that the acquiring firm imposes its approaches and practices on the acquired firm, even where this is counterproductive). Jemison and Sitkin (1986) concluded that the attention of M&As should be directed to the process itself and that the knowledge of the impediments may affect the ability of managers and scholars to understand how to achieve the benefits (Jemison & Sitkin, 1986).

The examples of research above illustrate the extensiveness of the field of human integration. Focusing on a single element of the field enables researchers to analyze the chosen concept in depth. However, a true understanding of the processes of human integration in M&As requires a more holistic approach. Two broad concepts that have several tangents with the concepts discussed in the examples above are organizational culture and identity. In Chapter Two we will discuss the ways in which organizational culture and identity influence M&A human integration processes, as well as each other. Here we will briefly indicate what in this dissertation is understood to be identity and organizational culture, and why these concepts are seen as important for M&A human integration processes.

Identity is in this dissertation approached from a social identity perspective. Identity can be seen as consisting of three levels: Individual, interpersonal and social (Sluss & Ashforth, 2007). The individual level looks upon the self as a unique being that separates itself from its environment. A distinctive issue is self-esteem and this is derived from

interpersonal comparisons of traits, abilities and performance. The basic motivation at this level is self-interest. The individual is seen as independent and autonomous. The next level is interpersonal. The main concentration is on role-related relationships like supervisor-subordinate or co-worker—co-worker. The individual at this level is therefore interdependent. The basic motivation is the dyad's welfare. Self-esteem is at this level based on the fulfillment of the role-relationship obligations. The third level is the core of the social identity theory and the main focus of this thesis. At this level the individual is seen as having characteristics that are also characteristics from the group that the individual belongs to. This means that self-esteem is based on intergroup comparisons and the welfare of the group is seen as the basic motivation of the individual (Sluss & Ashforth, 2007).

Researchers often treat identity and identification as synonyms for one's sense of self (Sluss & Ashforth, 2007). But there is value in making a distinction. Identity can be defined as something that is distinctive, central and enduring (Dutton, Dukerich & Harquail, 1994) and identification can be defined as the degree or the extent to which an individual defines himself as having the same attributes as this identity. (Ravasi & Rekom, 2003; Dutton et al., 1994; Ashforth and Mael, 1989), which means that identity is seen as a relatively stable state and identification as a force. Identification can be seen as a perceptual cognitive construct, meaning that it is not associated with behavior or an affective state but with personally experiencing the success and failures of the group (Ashforth & Mael, 1989) and is typified as a property of individuals (Ravasi & Rekom, 2003). The problem with the use of these concepts is that identity or social identity is often mentioned by researchers in the beginning of their argument in order to provide the boundaries of the concept and then the argumentation often transforms without explanation to identification or social identification because this is what is actually measured.

Another problem is that a single term (organizational identity) is often used with different meanings. It is sometimes seen from a macro perspective and then it focuses on the entity per se, independent from individuals (Hatch & Schulz, 1997; Dutton et al., 1994; Ravasi & Schulz, 2006; Zaheer, Schomaker & Genc, 2003), and sometimes it is seen as a part of the self and is then described as the occurrence of the organization providing an answer

to the question “Who am I?” (Ashforth & Mael, 1989; Hogg, Terry & White, 1995; Bartels, Douwes, de Jong & Pruyn, 2006; Van Knippenberg, Van Knippenberg, Monden & de Lima, 2002). Arguing from the social identity theory it stands more to reason to treat organizational identity as a specific form of social identity and therefore a part of the self because identity as a concept focuses on the awareness and experience of the individual.

Organizational culture is often interpreted as “how we do things” (Zaheer et al., 2003). It can be seen as both the everyday understandings of the members and the more general features of the organization (Parker, 2000). Most of the time organizational culture is referred to as “shared values and beliefs” (Peters & Waterman, 1982; Schein, 1996; Hatch & Schulz, 2002), but several perspectives on organizational culture have been developed in the last 30 years (Smircich, 1983; Martin, 1992; Trice & Beyer, 1984; Hofstede, 1994; Saffold, 1988; Sackmann, 1992). In the next chapter this will be explained more elaborately as well as the consequences the various perspectives have for research approaches.

Social and organizational identification and organizational culture are closely related and sometimes it is even hard to make a distinction between the two processes of shaping and forming a culture and shaping and forming an identity. Both processes are influenced by organizational and environmental changes. A merger is clearly a disruptive element that will change the organizational processes and the stable forms of the concepts mentioned above. Buono, Bowditch & Lewis (1985) refer to this phenomenon as a “cultural collision” meaning that a different organizational world can disrupt the entire workings of the old firms and will create a shock for the members of both firms. By observing the integration process over several years the “shock” and its “after effects” can be observed and measured.

This thesis explores the merger integration process of two international airlines from the perspective of organizational culture and identity.

The problem statement guiding this thesis will be:

**How do organizational culture and identity factors influence employee responses in the post-merger integration processes?**

In order to get a closer insight in the connection between the processes the following questions will be answered in the next chapters:

- *How do post-merger integration processes impact on perceptions of culture, and how do these perceptions influence employee responses?*
- *How do post-merger integration processes impact on the social identification, and how does this influence employees responses?*

## **1.10 Method**

The answers to the above questions are sought in an analysis of the data of a longitudinal study in which two international airlines were closely observed during their integration process after a merger. The important characteristic of longitudinal research is the capacity to observe changes and developments across an extended period of time (Saunders, Lewis & Thornhill, 2004; Sekaran, 2003). In this case we looked for developments and experiences over a time period of three-and-a-half years. The studies of human integration processes in M&As that have been done so far have seldom observed activities so extensively during such a long time period.

Two research teams participated in this case study. One research team mainly focussed on the acquiring company, Air France, and the other team focussed mainly on the acquired company, KLM. The acquired airline KLM is the main focus of this dissertation. This focus has been chosen because the acquired company most of the time

has a more difficult struggle with changing its identity than the acquiring company, and because a vast amount of the interviews have been done by the author of this dissertation. Doing this meant spending a lot of time in the company, which offered the opportunity to experience the culture and atmosphere of the organization.

The main observations were performed in several departments of the organization.

These departments were:

1. Corporate staff at headquarters
2. Engineering & Maintenance
3. Cabin Crew
4. Check-in staff and personnel at the hub (Schiphol)
5. Sales staff at outstations in Europe: Spain, England, Germany, Switzerland, Sweden and Italy
6. Cockpit Crew
7. Cargo

The study has been executed over a period of three-and-a-half years. It consisted of 6 rounds of data collection. Each data collection round entailed a number of interviews and a survey with written questionnaires. Besides these interviews and questionnaires there were several meetings with Vice Presidents and Executive Vice Presidents in which preliminary conclusions from the data collected were presented and discussed. These meetings frequently provided additional data. For this study part of both the data collected from the questionnaires and from the interviews will be analyzed.

It is always difficult to generalize on the basis of a single case study. But a case study gives a rich understanding of the processes that are being enacted. In general a case study strategy provides answers to questions that refer to the “why?” of a phenomenon as well as the “what?” and “how?” question (Saunders et al., 2007), and by using the method of triangulation (more than one data collection technique) the data can give us enough construct validation. Furthermore, as the level of analysis of this thesis is the individual employee responding to a merger event, our single case contains a very large number of

measurement units. Moreover, as will be discussed in the next chapters, the individual employees interviewed and surveyed can be categorized according to the extent and type of postmerger integration of their department, so that the single merger case nevertheless offers the opportunity to compare responses to different postmerger integration experiences.

## **1.11 Structure**

This dissertation will start with discussing the research on social identity and organizational culture in postmerger integration processes (Chapter Two). The case studied, the general approach followed in the research, the methods of data collection employed, and the strategy followed in analyzing the data will be discussed in Chapter Three. Subsequently the data from the case studied will be analyzed from the two perspectives, social identity and organizational culture (Chapters Four and Five). The findings of these two chapters are subsequently discussed in Chapter Six, in which the overall conclusions are formulated, limitations of the study discussed, and suggestions for further research are made.

## **Chapter Two: Theoretical background**

### **2.1 Introduction**

When entering an organization the first impressions we get are the image of the building, the entrance hall and the specific manner of welcoming behaviour of the receptionist. We encounter so to speak the atmosphere of the organization. This is part of the organizational culture. We see a small example of the “way things are done around here” (Deal & Kennedy, 1982). If we extend our interaction with members of the organization we will experience that these particular ways of doing things, or organizational practices, are more than just conventions, they reflect deeply-held convictions about what is the right and the wrong way to handle certain situations, which in turn are linked to beliefs concerning the organization itself, the environment in which it operates, and what makes the organization successful in its environment (Schein, 1992). Analyzing this particular manner of handling situations within an organization gives us an insight in the organization as a whole and enables us to compare one organization with another. Researchers as observers from the outside can study organizational practices and the shared meanings of the organizational members that give rise to them.

In this dissertation organizational culture as well as the social identity of the members of an organization during the integration period following an acquisition will be analyzed. The identity that organizational members ascribe to themselves molds and gives direction to the organizational culture. On the other side of the coin, the organizational culture also shapes the feeling of identity of its members. This mutual influence can be seen in many examples.

In this chapter it will become clear that both organizational culture and social identity are molded and shaped during substantial changes within organizations, of which integration processes of M&As are an example. It will also become clear that both culture and identity are relatively unstable. Organizational cultures will always change over time. Social identity will change even more easily in the sense that an individual can choose

which group he wants to identify with and it could be argued that modifying this choice is less difficult than modifying the organizational culture. He can for instance shift from one group to another, or choose to identify with more than one group simultaneously.

In order to get a full understanding of the process of how organizational culture and social identity can also mutually influence each other, the concepts will first be discussed separately and the research that has been done on these subjects will be briefly reported. After that we will focus on the research that has linked organizational culture or social identity to the context that is central to this thesis, M&As. Finally we will hypothesize how organizational culture and social identity both influence the employees, again specifically in the context of M&As.

## **2.2 Identity and social identity**

Identity gives an answer to the question: “who am I?” and for other entities: “who are they?” In this sense identity separates groups and individuals from each other. Identity as a concept refers to distinctiveness (in what way is the group or the individual different from other groups/individuals?) and “oneness” (what are the characteristics that the members of a group share?) (Albert, Ashforth & Dutton, 2000).

The identity of an individual is formed during his upbringing. The behaviour of role models like parents, teachers, and siblings will be copied and then internalized, and these influences taken together form the identity of the individual. Personal identity theories focus on “individual schemas and knowledge structures that underpin the self-concepts of individuals” (Ravasi & Van Rekom, 2003: 3). As these schemas and knowledge structures endure over time, individual identity can then be seen as a “sense of sameness over time” (Albert & Whetten, 1985: 272). Identity is thus formed through social interactions, which become generalized in our minds and form our self-schemata. In routine situations individuals use these schemas as scripts, meaning that they influence behaviour in a very direct way, without much deliberation. In new situations individuals construct and adjust these scripts. Thus “people construct and enact specific identities based on their needs for self-definition and with reference to specific audiences and



specific situations” (Scott & Lane, 2000: 4). It means that identity formation is an ongoing process during the lifetime of every human being.

A specific form of identity is the social identity. Social identity does not refer to what makes someone unique as an individual, but to what the individual shares with members of specific groups. It is formed every time a person joins a group. As a group member, he will identify himself with the group, meaning that membership of the group is seen by the individual as a defining characteristic of himself. This process of identifying oneself with the group depends on factors like the importance of the group for the individual, the status of the individual within the group, and the status of the individual as a member of the group outside of the group. This process of identification with groups and its behavioral consequences are studied by social identity theory.

Social identity theory is based on the idea that one’s identity is formed by a self-definition process. The self-concept that is formed consists according to the social identity theory of the personal identity, which encompasses personal characteristics like abilities, psychological traits and physical appearances, and the social identity which consists of salient group classifications. Being part of a group means that certain aspects of those groups are taken to be aspects of oneself. For instance being a member of a chess players’ club means that the member will be able to say: “I am a chess player” or being a member of a religious group means that the member can for instance say: “I am a Catholic”. When you perceive yourself as a member of a group you will perceive the fate of the group as your own. (Ashforth & Mael, 1989). Social identification is the internalization of the values and norms of the group, which become a part of the self concept (Tajfel & Turner, 1986). A work organization is one particular type of social entity with which a person can identify. When a work organization is psychologically accepted as part of the self this is a form of self-categorization. Psychological acceptance of an organization as a source of identity has not only cognitive, but also emotional consequences (Hogg & Terry, 2000).

Social identity theory specifies three processes in the social interaction between and within groups:

1. Social categorization --- People organize information by categorizing in groups. By doing so they can concentrate on the collective properties that are seen as relevant and neglect certain variations.
2. Social comparison --- We compare ourselves with other groups in the form of general features that distinguish us from these other groups. This helps us to define our group relative to others.
3. Social identification --- This is the process that makes us see ourselves as a representative of a group. It means that certain group norms are used as a guideline for our behaviour (Ellemers, Gilder & Haslam, 2004).

The essence of the third process, social identification, is that people define themselves as members of social categories or groups. The characteristics of a group or category will be seen as a part of the self. As identification with a particular group becomes stronger people see themselves more and more as part of the group and as a representative of the group. This ongoing process of social identification will affect their thoughts and behaviour. The group gives the members a sense of security and identity.

The in-group is seen as the group to which we belong and the out-group as the group or groups outside our own group with whom we compare ourselves in a specific situation. Social identity theory assumes that individuals strive to maintain a positive self-image (Ashforth & Mael, 1989), therefore individuals are attracted to groups that positively influence the perception of self, e.g., high status groups. In making comparisons group members will favor the in-group, and they will maintain positive stereotypes of in-group members, and more negative stereotypes of out-group members (Terry, Carey & Callan, 2001).

An important aspect in the self-categorization process is the development of a concept of the perceived self as a prototype of the in-group, or of the other as a prototype of the out-group. A prototype is “the cognitive representation of features that describe and prescribe attributes of the group” (Hogg & Terry, 2000). Prototypes are not a clear set of attributes

in the minds of the members. Often exemplary members play an important role in forming images of prototypes process. Defining oneself and others in in- and out-groups is not done on the basis of observed individual characteristics but on the basis of ascribed stereotypical characteristics, a process of depersonalization. Group members are no longer individuals but seen as prototypes (Hogg & Terry, 2000).

It is also argued in the theory that identification can appear in different strengths. Kreiner and Ashforth (2004) created an expanded model applied to organizational identification. They distinguished four forms of identification: strong identification, disidentification (when an individual defines himself as not having the same attributes that he believes to define the organization) ambivalent identification (to simultaneously identify and disidentify with one's organization) and neutral identification (the explicit absence of both identification and disidentification). They found in their research that these different forms of identification were related to several organizational outcomes. Disidentification for instance was positively associated with intrarole conflict, and ambivalent identification was positively associated with both organizational identity incongruence and intrarole conflict (Kreiner & Ashforth, 2004).

Because people strive to maintain a positive self-image and tend to see themselves in terms of group membership they will aspire to belong to a group with a higher status, which is a group that compares favorably with other groups. Both laboratory experiments and field studies show that when people belong to a high-status group they show pride and identify strongly (Haslam, 2001; Ashforth & Mael, 1989; Van Knippenberg, Van Knippenberg, Monden & de Lima, 2002,). Thus individuals make intergroup comparisons and through these comparisons enhance their self-esteem and self-efficacy (Salk & Shenkar, 2001).

When people belong to a low-status group they develop strategies to improve their social identity:

- They may engage in individual mobility. This means that they will disengage from their group and seek membership of a higher status group.
- They may develop social creativity, which is a response of making intergroup comparisons on dimensions different from those that determine the status.
- Finally, they may engage in social competition, meaning that they try to reverse the status ranking (Tajfel & Turner, 1986; Haslam, 2001; Ashforth & Mael, 1989).

Social identity theories focus on the process of forming an identity that we derive from the group that we belong to or that we aspire to belong to. An important category of groups in this respect, are work organizations. As adult individuals spend a substantial part of their time in work situations, we can expect work organizations to play an important role in social identification. The reference groups in these cases could be whole organizations, such as companies, but also a department or a part of a department of that organization, or a professional group (possibly cutting through intra- or inter-organizational boundaries).

Organizational identification can be seen as a specific form of social identification (Ashforth & Mael, 1989). It is “the cognitive/perceptual awareness that the self constitutes part of the organization” (Ellemers et al., 2004). The concept of organizational identification should be distinguished from the concept of commitment. Commitment refers to affective ties between the individual and the group (Ellemers et al., 2004), identification has to do with how a person conceptualizes himself. That means that the self is linked to the perception of organizational characteristics, including organizational goals and objectives. However, employees work in a particular unit or department, which can mean that they identify with the goals of the department or unit, which not necessarily align with the organizational goals (Ellemers et al., 2004).

## Relevance of social identity to M&As

A merger can be seen as a re-categorization. Two social groups become one social group. The merged group is new. It incorporates the old groups. From a social identity perspective a merger will mean a change of identity, or at least a challenge to existing identities. The question is how this change will affect organizational identification. In identifying with an organization a sense of continuity seems to be an important main ingredient (Van Knippenberg et al., 2002). A merger can mean a loss of continuity. The old firms are disintegrated into the new firm. In this sense of continuity organizational dominance plays an important role. The members of the dominant organization perceive a stronger sense of continuity than the members of the dominated organization (Van Knippenberg et al., 2002), as their organization incorporates the dominated organization. Defining a dominant organization in a merger may not always be as easy as it seems. However, several studies indicate that most mergers may to a certain extent be seen as takeovers (Cartwright & Cooper, 1992; Hogan & Overmeyer-Day, 1994; Van Knippenberg et al., 2002). One of the merging organizations is usually larger, richer or more powerful than the other, and both in the pre-merger and post-merger processes the role of organizational dominance often seems to be apparent. Out of more than 90.000 European mergers and acquisitions performed between 1985 and 2001 Zaheer, Schomaker & Genc, (2003) could classify only 45 as true mergers between equals.

After an M&A the employees' organizational identification will go through a process of change. The identification with the old firm is expected to change into identification with the new firm. This is a process that can take a considerable amount of time. It can even take more than five years (Van Raes, Vanbeselaere, Boen, De Witte & Oudermans, 2008). Before this new identification emerges, it is likely that the employees go through a process in which the other firm (acquiring or acquired) is seen as the out-group. Seeing the other firm as an out-group may lead to several social responses.

These social responses are amplified by a number of factors that the social identity theory (SIT) suggests increase the tendency to identify with a group. The first is the *distinctiveness* of the group's values and practices. This is related to the comparative

group. In order to constitute a unique identity, the group has to separate itself from the other group by emphasizing the domain boundaries and the group's impermeability. The second factor that enhances identification is the *prestige* of the group. Individuals like to identify with a winner and one of the arguments of the SIT is that through intergroup comparison social identification affects self-esteem. Thus, in order to improve their self-esteem individuals want to be part of a higher status group and distinguish themselves as such. A third factor is the *salience* of the out-group, in the sense that awareness of the out-group will reinforce awareness of the in-group. (Ashforth & Mael, 1989).

For understanding the social responses it is important how the employees perceive their own status. If the employees regard themselves as being in a lower status group it will mean that the distinction will be negatively valued. When groups have a negative status they often develop defense mechanisms to turn the negative issues into positive ones. The three responses mentioned above are the most frequently mentioned basic strategies of self-enhancement. The first strategy, *individual mobility*, rests on a belief in the permeability of the boundaries between the groups (the *social mobility belief system*). Employees will most likely pursue *individual mobility* when they are members of a relatively low status group and when the group boundaries are perceived to be permeable. The two other strategies (*social creativity* and *social competition*) are related to the *social change belief system*. In this system changes are intended to improve the negative or maintain the positive side of one's in-group. This implies a belief in the impermeability of groups. In this belief system employees are unable to better themselves by moving between groups. When they act according to the *social creativity form* they can do this in a number of ways: (a) finding a new dimension on which to compare in-group and out-group, (b) changing the values assigned to the attributes of the in-group and (c) engaging in comparison with a different out-group.

*Social competition* is often a typical reaction to the perceived insecurity of the relative status. Members of the in-group can perceive intergroup barriers or their relative status as being unfair and may act collectively to improve their position. This can be done by confronting the out-group or trying to change the circumstances themselves (for instance changing the rules that restrict the ability to improve, or set up educational courses)

(Haslam, 2001). Research indicates that an individual's identity may alternate between groups (Ashforth, Harrison & Corley, 2008) or may have dual or multiple layers (Gartner, Dovidio & Bachman, 1996; Pratt & Foreman, 2000; Jetten, O'Brien & Trindall, 2002; Van Leeuwen, Van Knippenberg & Ellemers, 2003; Van Knippenberg & Van Schie, 2000) and therefore competition may be reduced by creating a superordinate group (Jetten et al., 2002; van Leeuwen et al., 2003; Gartner et al., 1996). In the case of a merger the superordinate group would be the "new" organization.

*Social creativity* and *social competition* can also be responses of the higher status group. *Social creativity* will display different forms like (1) showing favoritism towards the out-group on irrelevant dimensions thereby mirroring the social creativity of the lower status group. They may also (2) engage in behind-the-scenes censorship or repression and publicly deny this. When their superior status is threatened, the defense may (3) take a more sinister form like racism, sexism or national chauvinism, to justify and rationalize the superiority of the in-group and the inferiority of the out-group.

*Social competition* will be more aggressively expressed by members of a high status group if they feel their relative advantage is under threat. There are more likely some forms of social conflicts and open hostility (Haslam, 2001).

The identification process during the integration period of an M&A involves identifying with the "new" firm. This is a huge change or shift and researchers emphasize that managers should keep in mind that the process will run more easily if the gradualism is viewed as inevitable. Employees are more willingly to accept the change if it does not erode all the familiar perspectives (Chreim, 2002), if they can keep a sense of continuity (Van Knippenberg et al., 2002; Van Raes et al., 2008). And even if this process is orchestrated to evolve gradually there is still room for the social responses mentioned above. Therefore in this thesis the assumption is made that these social responses will emerge in the transition period. Analyzing these responses can give us an estimate of the extent to which identification with the "new" firm is problematic. We assume that some of the social identity responses are more conducive to identification with the new, merged firm than others.

Following the social responses indicated by Haslam three propositions can be formulated:

*When the employees of the lower status firm engage in more competitive behavior, they will identify less with the new organization. (Competition)*

*When employees of the lower status firm see more opportunities for social mobility in the new firm or the higher status firm they will identify more with the new organization. (Social mobility)*

*When the employees of the lower status firm develop new perspectives to compare themselves favorably with the “other” firm they will identify less with the new organization. (Social creativity)*

It would seem most likely that the employees of the acquired firm see themselves as having a lower status. Most of the field researchers presume the larger size of the firm or bearer of the new company name to be the higher status firm. Terry et al. (2000) used this premise when they observed a merger between two airlines that had a history of a former acquisition which resulted in both airlines retaining the name of the former acquirer.

However, the assumption that the acquired firm is perceived as the lower-status entity can not always be justified. The firms engaged in the merger may be of (nearly) equal size and performance, in which case it would be difficult to determine which one is high, and which one low status (Bartels, Douwes, de Jong & Pruyn, 2006; Van Dick, Wagner & Lemmer, 2004; Buono, Bowditch & Lewis, 1985; Fang, Fridh & Schulzberg, 2004). And even if one firm legally acquires the other, this does not automatically make it the higher-status firm, but most of the time the acquiring firm will be seen as the dominating organization. On the other hand, when an M&A is explicitly called a merger it can be assumed that it is based on the fundamental idea of equality and yet in the mergers studied by Terry, Carey & Callan (2001) and Van Knippenberg et al. (2002) they were interpreted as involving a high-status and a lower-status firm, or a dominating and a dominated firm. Moreover, the perception of status differences may vary between departments or occupations within the firms. Up till now much of the research has been



based on laboratory experiments, in which the high and low status groups were distinguished by design. One purpose of the study this thesis reports on is to find out to what extent employee responses in a real-world merger match those of laboratory experiments. More specifically we will look if, and under what conditions, we can identify processes of social mobility, creativity and competition. In order to give an answer to these questions we need to look at the actual social processes during an M&A.

Social identity theory found its origin in an attempt to understand the psychological basis of intergroup discrimination. Tajfel & Turner, (1986) conducted a research to identify the minimal conditions that would lead members of one group to discriminate themselves from another group in favor of their own group. However, this approach remains relatively silent as far as intra-group characteristics and processes are concerned. Furthermore individuals do not identify with every group; identification may be expected to be also influenced by qualitative characteristics of the groups in question. The concept of organizational culture is of help here. Organizational culture refers, as we have seen, to the shared meanings, values and practices of the organization. These may form a source of attraction to the individual employee, and therefore influence identification and social responses to an M&A. Organizational culture will therefore be the second main focus of this thesis.

## **2.3 Organizational culture**

The concept of organizational culture was first introduced by Pettigrew during the seventies (Pettigrew, 1979), and in the next decennium it gained popularity when Peters and Waterman introduced their book “In search of excellence” in which they linked a strong organizational culture to organizational success. They based their argument on research in over 40 companies (Peters & Waterman, 1982). In the decennia that followed, however, the idea that a strong organizational culture would be a recipe for success lost credibility. Different perspectives for looking at this concept evolved.

## Perspectives

These perspectives can schematically be described from a dichotomous viewpoint. On one side of the pole we see a pragmatic view. Organizational culture is seen as something an organization “has”. Many times it is referred to as “the way things are done around here” (Deal & Kennedy, 1982). This approach reduces organization culture to certain elements that can be influenced by managers. As to the contents of the concept of organizational culture, researchers working with this perspective in mind typically assume that several layers can be distinguished. The most observable, but also most superficial layer is that of actual behaviours, or practices. Below that are the layers of shared beliefs, assumptions and values. The metaphor of the layers of an onion is often employed (Sanders & Neuijen, 1988). At the core of the onion, the deepest layer of organizational culture, we find shared values (Peters & Waterman, 1982) or basic assumptions (Schein, 1992). The common factor in this approach is that the core of the organizational culture is not easy to detect because it is deeply rooted in the minds of employees and it is shared by most (if not all) of the members of the organization. From a contrasting point of view the observable layers are seen as manifestations of “organizational climate”. The concept of organizational culture would, in that view, be restricted to the deeper layers of underlying assumptions. An interesting aspect of this point of view is that qualitative research approaches seems to be able to tap the concept organizational culture, while quantitative research merely gauges organizational climate (Denison, 1996).

Researchers employing the pragmatic perspective are from several disciplines, including psychologists, sociologists, economists and engineers. This viewpoint suggests a static concept of a culture that forms an enduring characteristic of a company. It can be seen as a system, which means that if one part of the culture changes the whole system changes; nevertheless influencing the culture is seen to be possible. It can be argued that leadership style, strategy formulation, networks and management teams will all have their reflections on the organization culture (Buono & Bowditch, 1985; Kavanagh & Ashkanasy 2006; Salk & Brennan, 2000).

This pragmatic view analyses differences between cultures, and researchers have developed several approaches for this task. These approaches fall into two distinct categories: typology-based approaches and dimension-based approaches (Ashkanasy, Broadfoot & Falkus, 2000). As an example of a typology-based approach, Handy (1981) describes four possible cultures: power, role, task and person. Deal and Kennedy also distinguish four types. These range from the “tough guy culture” (people take a lot of risks) to the “process culture” (low risks and slow feedback) (Deal & Kennedy, 1982). An example of a dimension-based approach is Hofstede, Neuijen, Ohayv and Sanders (1990), who distinguish eight dimensions of organizational culture (see also Sanders & Neuijen, 1988). The dimension-based approach typically aspires to quantitative measurement of what are assumed to be attributes or more or less stable properties of organizational cultures (Gertsen, Söderberg & Torp, 1998).

At the other pole we find the purist perspective. It is the interpretative or symbolic anthropological view (Gertsen et al., 1998). In this view a culture is something an organization “is”. This viewpoint acknowledges an ongoing process of interpretation by employees of the symbolic meanings of phenomena within the organization. These researchers mostly study the culture by looking at narratives, by participative observation and by in-depth interviews. This approach assumes that changing an organizational culture is difficult and certainly not a process only initiated and controlled by the managers (O’Byrne & Angwin, 2003).

The bipolar classification described above has been expanded in a three-perspective view by Martin (1992). In her view organizational cultures can be seen from an integrative, differentiation or fragmented view. The integration perspective is similar to the pragmatic view discussed above. The assumption is that there is consensus in the organization, and not a lot of ambiguity regarding the organizational culture. The differentiation perspective emphasizes the existence of subcultures and focuses on the consensus within each subculture. The last perspective, “fragmentation” focuses on ambiguity as the essence of organizational culture. The assumption is that there is no organization-wide or even sub-cultural consensus. The metaphor that Martin uses to describe this perspective

is that of a jungle (Martin, 1992). As can be seen from the discussion of the different approaches the concept culture seems to be a comprehensive notion. This means that a researcher can either choose one of them or combine several perspectives.

Research into organizational culture has often focused on either the fit between individual employees and the organizational culture (person-culture fit) (O'Reilly, 1999; Vandenberg, 1999; Sarros, Gray, Densten, & Cooper, 2005; Robert & Wasti 2002), or the fit between the cultures of different organizational units or organizations (Barkdoll, 1998; Lubatkin, Schweiger & Weber, 1999). The focus of this thesis will be on the influence of an M&A on the organisational culture of the two merging companies. Will the cultures of the two constituent organizations gradually become more alike (increasing fit)? Or will cultural differences persist, or even increase over time (stable, or decreasing fit)? We will study the integration process to identify factors that may lead to cultural convergence or divergence in the postmerger period.

### **What do M&As mean for the organizational cultures of the companies?**

Organizations involved in M&As experience major changes. The employees' perceptions and emotions may be expected to be influenced in various ways during this process. The perceived level of autonomy seems to be a determinant factor in this process. This is reflected in the acculturation process, i.e., the culture change process in the post-merger integration process. The mode of acculturation can differ depending on the level of autonomy that has been agreed upon during the negotiation process.

The types of acculturation are: integration, assimilation, separation and deculturation (Nahavandi & Malekzadeh, 1988). Integration means that there will be some synergies and adaptation, assimilation means the acquired firm will change its culture into the culture of the acquirer, separation means that both companies will keep their own culture, and deculturation means a loss of culture, a kind of apathy (see for a more elaborate explanation Chapter One). According to Nahavandi and Malekzadeh the type of acculturation process depends among other things on the perception of attractiveness of

the acquirer and the perceived value of the own culture of the acquired company (Nahavandi & Malekzadeh, 1988).

A lot of research has been done on the issue of cultural fit between organizations involved in an M&A. The general assumption was that the chance of success of an M&A is higher if the cultures of the organizations involved are more compatible (Weber, 1996, Cartwright & Cooper, 1993; Cartwright & Cooper, 1995). Weber and Pliskin (1996), for instance, concluded from their analyses of 69 M&As (40 of which involved banks) that cultural differences were negatively associated with merger effectiveness. Striving for synergy realization meant in those cases that culture clashes were encountered. In a sample drawn from the *Journal of mergers and acquisitions* during the 1985 through 1987 period cultural differences were found to have a negative effect on the commitment of top-management of the acquired firm to the acquiring firm. This lower commitment led to a negative attitude towards the new cooperation. The authors concluded that a lack of cultural fit may undermine the prospect of achieving synergy (Weber, Shenkar & Raveh, 1996).

Various dimensions have been developed to compare types of cultures relevant for M&As. Cartwright and Cooper (1993), for instance, distinguish four types.

The first type is *the power culture* (centralization of power, essentially autocratic). In this culture the employees experience the highest degree of constraint compared to the other three types. It suppresses the challenges that the employees might take and it tends to function on implicit rules.

The second type is *the role culture* (bureaucratic and hierarchical, emphasis on formal procedures). In this culture the emphasis is on role requirements. Rules and regulations prescribe in which way the work has to be conducted.

The third type is *the task/achievement culture* (emphasis on team commitment, flexibility, and worker autonomy). This type of culture focuses on task requirements and therefore the flexibility and autonomy of the employees is high, and individual employees receive support (emphasis on egalitarianism).

The fourth type of culture nurtures the personal growth and development of the employees (*the person/support culture*). It is most often found in non-profit organizations and communities.

Cartwright and Cooper (1995) argue that the more dissimilar the cultures of the merging organizations, the greater the expected culture shock will be. But in fact it is more complicated than that. The predicted culture match also depends on the action of the acquiring firm. Cartwright and Cooper (1995) recognized three scenarios, which reflect the strategies distinguished by Haspeslag and Jemison (1991): *Absorption*, *symbiosis* and *preservation* (see Chapter One). The acquiring firm imposes its own culture, integrates the two cultures, or allows the acquired firm to be a separate and culturally different entity. Cartwright and Cooper (1995) assume that if the acquiring organization intends to change the culture of the acquired firm, cultural similarity is not a condition for success.

This, however, seems to be questionable because imposing a totally different culture may be expected to be more difficult than imposing a similar culture. Either way, the strategy of imposing change in itself has been seen as one of the causes of “post merger stress” (Panchal & Cartwright, 2001; Buono & Nurick, 1992; Marks & Mirvis, 1997; Appelbaum, Lefrancois, Tonna & Shapiro, 2007). Marks and Mirvis refer to this phenomenon as “the merger syndrome”, which is a result of the combination of uncertainty and the likelihood of change. It “produces stress and ultimately affects perceptions and judgments, interpersonal relationships and the dynamics of the combination itself” (Marks & Mirvis, 1997: 22). Under influence of this “post merger stress” I assume that there is a possibility that the perception of the other culture will take an exaggeratedly negative form (for instance by extensive stereotyping). The assumption in this thesis is that this therefore that the perceptions of the other firm’s culture, and thus perceptions of cultural fit, are likely to change over time, as the collaboration process with the other company evolves.

Organizational culture is often measured as an independent variable and is then used to chart differences among cultures, locate clusters of similarities, or draw implications for the effectiveness of the organization (Smircich, 1983). In this line of reasoning culture is linked to strength (Saffold, 1988), rites and ceremonials (Trice & Beyer, 1984),

socialization (Wanous, Reichers & Malik, 1984), and integration of information systems (Weber & Pliskin, 1996).

In most case studies however, the organizational culture is measured through *the perception* of the groups or employees in the company. Cartwright and Cooper (1993), for instance, in their study of a merger of two U.K building societies measured the cultures as “experienced” and “assessed” by the managerial groups which were the focus of their research.

Another example is a study of a merger of two Norwegian hospitals by Roald and Edgren (2001). These authors measured the organizational culture by using the way the employees defined the behaving and thinking of the employees of the “other” company. But also studies based on larger samples use *the perception* of the respondents as their means to describe the organizational culture of their company. Very, Lubatkin, Calori and Veiga (1997) for instance developed a *perceived cultural compatibility score* based on the “what ought to be” responses, the “what was” responses and the “what is” response. On the basis of these measures they described in their research the perceptions of the managers of 155 French and 191 British acquired firms of their values in relation to their company, before and after the merger (Very et al., 1997; Veiga, Lubatkin, Calori & Very, 2000).

In line with the above-mentioned studies the research in this thesis uses the perceptions of the respondents to describe the differences between the organizational cultures of the merged companies.

As was mentioned in Chapter One an M&A process can be seen as a succession of stages (Fugate, Kinicki & Scheck, 2002; Ring & Van Ven, 1994). During the first phase the employees will have an anticipatory attitude (Fugate et al., 2002), in this phase the feelings of threat are the most eminent and consist of fear for lay-offs and reorganization. This means that this period will be confronting in a number of ways.

First of all there is the threat of losing one’s job, second there is an uncertainty concerning the future of the whole (original) organization, and the final confrontation is with the new colleagues that the employees will encounter. Working with new colleagues will mean that the differences of procedures and attitudes will become clear during this

period and this will mean that the estimation of the differences between the two cultures will increase.

During the next stage when the collaboration is at its full potential the anticipation is that the differences will gradually diminish because of the compromises that have to be made. Compromises will lead to a better understanding of the “other culture” and the prognosis is that this will lead to a lower estimate of differences between the organizational cultures of the two companies in the perception of the employees. This results in the following proposition:

*In a merger the perceived cultural differences between the firms involved will in the postmerger period first increase, and then decrease.*

Within the proposition mentioned above the amount of interaction with “the other company” is crucial. Different departments within the merging organizations will have different degrees of involvement with their counterparts at the other organization. A comparison with the four types of Haspeslagh and Jemison (1991) can be made (see Chapter One). Their classification covered the entire integration process of the organization as a whole but departments can develop differently from each other and the four types, they have derived, might therefore be converted to phases in the process of integration. Some departments can be seen as being in the *preservation phase*. The autonomy in this phase is labeled as high and the strategic interdependence is labeled as low. Some departments can be seen as being in the *symbiotic phase* and some can be seen as being in either the *holding* or the *absorption phase*.

The differences depend on the amount of autonomy of the departments and the amount of strategic interdependence. The prediction is that these different degrees of involvement will shape the perception of the culture of the “other company”. The prognosis is that high interaction will lead to changes in perception and low or no interaction will lead to little or no changes in the perception of the employees.



This leads to the following propositions:

*In high interaction groups perceived cultural differences will first increase and later decrease.*

*In low interaction groups perceived cultural differences will remain constant.*

Furthermore, this process of increasing and decreasing perceptions of cultural differences will not develop in the same way throughout the whole company but is likely to depend on the various subcultures and the contacts between these subcultures. Subcultures represent a culturally meaningful organizational unit. A researcher can decide a priori what he considers a meaningful unit. This could be a functional department, a subsidiary, a work group, a hierarchical level (for instance management versus workers) or groups descended from an earlier M&A. He can choose this unit by observing what is considered within the organization to be the most manifest differentiation into departments or units. If no within-organization differentiation is made, as in the case of some studies of M&As, an entire organization is seen as a single subculture (see also Hofstede, 1998).

Another possibility is to make no assumptions in relation to the sub-units and analyze the emergence of units that will occur along pre-conceptualized dimensions. (Sackmann, 1992; Hofstede, 1998). But in trying to make this distinction within an organization it is necessary to use these pre-conceptualized criteria along which employees can be categorized into groupings, and this in itself is an a priori action.

The research of Sackmann (1992) is an example of this kind of categorization. She distinguished between four forms of cultural knowledge that she used, to observe the clustering of cultural groupings within three different sites of a medium conglomerate. She found that most of the groupings formed around the “dictionary knowledge” that she defined as: “the “what” of situations, their content, such as what is considered a problem or what is considered a promotion in that organization” (Sackmann, 1992: 142). These sub-groupings were mostly based on the professional role perceptions of the employees.

It is safe to conclude that a distinction can be made between situations in which there is a dominant organizational culture, which is the culture that is shared by members of the entire firm, and situations characterized by the co-existence of a number of subcultures, with their own meanings and sense-making interpretations (Martin & Siehl, 1983; Gregory, 1983; Wilkins 1983; Sackmann, 1992; Hofstede 1998; Smircich, 1983; Saffold, 1998; Trice & Beyer, 1984). One culture is in this description dominant over the other (sub)cultures. Gregory (1983) recognized in this respect two kinds of multiple cultures in organizational settings. The first possibility is the system of subcultures mentioned above and the second possibility is cultures that cross-cut through several organizations like for instance occupational cultures.

Martin and Siehl (1983) subdivided the possible subcultures in three types: enhancing (the core values of the dominant culture are more fervently observed and practiced), orthogonal (accepting the dominant culture but developing a separate set of values), and counter-cultures (taking an opposite position on values). Counter-cultures can ridicule the core values but can have a functional existence within the company because they articulate boundaries and can provide a safe haven for developing innovative possibilities.

In this dissertation the subcultures are a priori determined on the basis of the various existing work units within the company. The reason for this is that these work units engage in very different types of activities, and that employees differ in terms of the average type and level of education and training. We expect therefore that the perceived differences of the cultures of both firms will also be different, resulting in the following proposition:

*The perceived cultural difference between two merging firms will differ between departments*

It would seem that cultural fit is almost a prerequisite for any form of successful cooperation between two companies. But there is also evidence that more different organizational cultures may actually lead to *less* conflict. Sometimes cultural differences elicit more attraction than stress (Very, Lubatkin & Calori, 1996). An explanation could be that confrontation with a totally different culture evokes curiosity and willingness to learn.

The most divergent cultural combinations are arguably those in which both the organizational *and* national culture of the companies involved in an M&A are radically different. In the next paragraph we will discuss the concept of national culture in the context of M&As.

## **2.4 National culture**

National culture is often assumed to be more deeply rooted in an individual's mind than organizational culture. Hofstede (1980) refers to national culture as "the collective programming of the mind which distinguishes the members of one human group from another" (Hofstede, 1980: 21). Inhabitants of nations have common experiences, institutions, themes and value orientations.

A few major cross-cultural research projects have been carried out during the last thirty years. The first researcher who developed a method to compare national cultures was Hofstede. He studied data about the work-related values of IBM employees in over 50 countries. His premise was that the respondents were "similar in all respects except nationality" (1994: 13), and consequently observed differences would clearly reflect national differences. Hofstede used four dimensions to compare the countries in his sample.

The first dimension was called *power distance* and referred to the dependency in relationships. Hofstede stated that in small power distance countries the dependence of subordinates on bosses is limited.

The second dimension *collectivism versus individualism* referred to whether the interest of the group prevails or whether the interest of the individual is dominant.

The third dimension *femininity versus masculinity* referred to concern for relationships and for the living environment on one side and on the other side concern for competition and assertiveness.

The fourth dimension *uncertainty avoidance* has to do with how a society deals with uncertainty. Uncertainty avoidance means striving for a reduction of ambiguity and can be seen in creating structure in organizations and relationships and in making events clearly interpretable and predictable. This dimension is linked to feelings of anxiety, as opposed to fear, which is linked to risks that are focused on certain objects. This leads, according to Hofstede, to the paradox that people can engage in risky behaviour because they want to reduce ambiguities.

Later Hofstede identified a fifth dimension called *long-term orientation versus short-term orientation*; this dimension relates to Confucius' teachings. It indicates a preference for a stable society based on unequal relationships like father-son and ruler-subject. The junior partner has to give the senior respect and obedience and the senior partner has to give the junior protection and consideration. The values that describe this side of the dimension are: perseverance, ordering relationships by status and observing this order, thrift and having a sense of shame. The short-term orientation is described by Hofstede as consisting of: personal steadiness and stability, protecting your face, respect for tradition and reciprocation of greetings, favors and gifts (Hofstede, 1994).

Another major cross-cultural research was conducted by Schwartz and Bilsky (1987) and resulted in a theory of universal types of values. These authors derived seven universal and distinctive motivational domains of values.

The first domain was called the *enjoyment domain* and was related to individual needs tied to physiological needs and transformed to socially recognized values such as pleasure or happiness.

The second domain was named the *security domain* and referred to safety, harmony and stability.

The third domain was called *achievement domain* and focused on personal success linked to competence.

The *self-direction domain* included independent thought and action.

The *restrictive-conformity* domain referred to restraining actions that can harm others.

The *pro-social domain* referred to active concern for the welfare of others.

The seventh domain was the *maturity* domain and referred to wisdom, tolerance and faith in one's convictions.

Schwartz and Bilsky (1987) also developed an eighth domain *the social power domain* (seen as position of authority and importance) but could not maintain this domain because it was difficult to connect to the Rokeach list of values on which the rest of the domains were based.

In their study in 1987 they concluded that the above facets were "sufficient to capture the major distinctions among values" (Schwartz & Bilsky, 1987: 560), and in their study in 1990 they concluded that "the dynamic psychological and social processes that shape value systems are widely shared in Western societies" (Schwartz & Bilsky, 1990: 889). The Hong Kong sample deviated from this pattern however, and this suggests that the motivational patterns are not universal after all (Schwartz & Bilsky, 1987; Schwartz & Bilsky, 1990). In 2007 Schwartz found a high consensus regarding what people consider moral values but a difference in applying them (either to their in-group or to all others) (Schwartz, 2007).

A third major cross-cultural approach has been performed by Granato, Inglehart and Leblang (1996). Their assumption was that economic development is linked to distinctive value orientations. These value orientations are reflected in two dimensions: the traditional versus the secular-rational orientations and survival versus self-expression values. Traditional orientation refers to preindustrial societies who have mostly a strong emphasis on religion, a male dominance in economic and political life and emphasis on family life.

Secular-rational orientation refers to industrial societies that contrast the preindustrial societies.

Survival values emphasize issues like low interpersonal trust, intolerance of out-groups, and low support for gender equality; self expression values show opposite preferences on these topics.

Granato et al. (1996) used the data from the World Values Surveys, which encompassed 65 societies, and concluded that values seem to be path-dependent. “Economic development tends to push societies in a common direction, but rather than converging, they seem to move on parallel trajectories shaped by their cultural heritages” (Inglehart & Baker, 2000: 49). In an earlier study (also based on The World Values Survey) Granato et al. typified these dimensions slightly differently (materialist/postmaterialist dimension and achievement motivation dimension) and concluded that the achievement motivation dimension is highly relevant to economic growth and that both cultural and economic arguments matter in the sense that one is not an substitute for the other (Granato et al., 1996).

The fourth major cross-cultural research project, the GLOBE study, was designed by House and consisted of questionnaire responses of about 17000 managers from 951 organizations in 62 societies, results from focus group discussions, and interviews. The goal was to develop an integrated theory with the central proposition that “the attributes and entities of a specified culture are predictive of organizational practices and leader attributes and behaviours that are most frequently enacted and most effective in that culture” (House, Hanges, Javidan, Dorfman,& Gupta, 2004: 17).

Several co-investigators, who resided in the societies that were included in the list, were recruited to do the job. The questionnaires were developed to elicit values representing: *What should be* and values representing; *What is* or; *What are*. The GLOBE study distinguishes the following nine dimensions: *Uncertainty Avoidance* (avoid uncertainty by reliance on norms, rituals and bureaucratic practices); *Power Distance* (the degree to which members of a society expect that power should be unequally shared); *Societal Collectivism* ( the degree to which a society encourages or rewards collective distribution of resources and collective action); *In-group Collectivism* (the degree to which individuals express pride, loyalty and cohesiveness in their organizations or families); *Gender Egalitarianism or differentiation* (the extent to which a society minimises or maximizes the gender role differences); *Assertiveness* (the degree to which individuals in societies are assertive, highly assertive societies have a “can do” attitude); *Future Orientation* (future oriented behaviour as planning, investing in the future, etc.);

*Performance Orientation* (the extent to which a society encourages or rewards individuals for performance improvements); and *Human Orientation* (the degree to which individuals are being rewarded for being fair, friendly, generous, etc.). The first six dimensions were based on Hofstede's dimensions and have been elaborated with the orientations of Kluckhohn and Strodtbeck and McClelland's work on achievement (Javidan & House 2001; House, Javidan, & Dorfman, 2001).

The major projects described above all focus on cultural differences between countries, using large samples consisting of questionnaire data. But the differences between the studies are substantial, and no study is without critics.

Hofstede for instance criticized the GLOBE study for using only managers as respondents and for not grasping the essence of organizational culture, because societal and organizational cultures were measured with the same instrument (and consequently were closely correlated in their sample) (Hofstede, 2006).

Javidan, House, Dorfman, Hanges & Sully de Luque (2006) criticized Hofstede because they did not accept his ecological values assumption (this assumption means according to Javidan et al. that "knowing the values of members of a culture is a sufficient way of knowing the culture" (2006: 899). These authors also take issue with the assumption that there is a linear relationship between values and practices. They refer to this as: "the onion assumption" which means that "knowing values in a culture tells us about what actually happens in that culture. (Javidan et al., 2006: 899).

Hunt (1981) appreciated Hofstede's dimensions but emphasized the importance of a relationship between values and motives. A cultural value as expressed in a mean score on a particular dimension in his perspective only something tells us something about probable behaviour if values and motives are related.

An examination of the national culture research literature illustrates the diversity in this field, in the sense that the several dimensions reflect a different perspective and different reactions to the environment. Culture can be seen as "a collective programming of the mind" (Hofstede, 1980: 21), as variables that are incorporated in an economic growth model (Granato et al., 1996), as values that represent cognitively three universal

requirements (Schwartz & Bilsky, 1987), or as “shared motives, values, beliefs, identities, and interpretations or meanings of significant events that result from common experiences of members of collectives that are transmitted across generations” (House et al., 2004: 15). It seems impossible to decide a priori what particular approach would be the most satisfying one. The choice therefore is mostly based upon a face value assessment of the researcher. The differences between the several cultures will then consequently be observed from a specific angle. It can be compared to the choice of a categorisation of subcultures a priori, which is often done by observing the existing groups or departments that are clearly visible.

Organizational culture can be seen as the culture within the organization. This means that the description that is mostly used to portray the culture of a society can be used as a description for the culture within the organization. House et al. argue in this line and consider culture at both the societal and organizational levels to include both common practices and shared values (House et al., 2004). Hofstede describes organizational culture as being at a different level than national culture, and emphasizes the difference, which he mostly attributes to the fact that the members have a certain influence in their decision to join an organization, are only involved during working hours, and can one day leave it again (Hofstede, 1994). Some researchers make hardly a distinction between organizational culture and national culture and define it as: “a system of publicly and collectively accepted meanings operating for a given group at a given time” (Pettigrew, 1979: 574) or “shared norms, values and assumptions” (Schein, 1996: 229). These definitions can be applied to organizations as well as large groups and nations.

Organizational culture can also be viewed in a more metaphorical sense, referring to the perception of an organization as a whole. Organizations can thus be seen as machines or as organisms or as political arenas, for instance, and these metaphors which are often not consciously chosen shape the way of perceiving the organization. Organizational culture is within this view seen as a background factor in an organization. It is a part of the environment and seen as a determining and imprinting force. An adaptive view on the other hand will lead to emphasizing the organizational culture as an internal variable. Organizational culture is then seen as a result of human enactment. This line of reasoning



using the premise that an organization is an organism is also applicable to the cultures of societies and has been observed in that manner by anthropologists as the system-structural view or the functionalist paradigm (Smircich, 1983).

Drawing on the theoretical insights from above the conclusion can be made that a distinction between organizational culture and national culture is not an easy task. And even when a line is drawn between the two there is still a complex process of mutual influences.

It will be clear that mergers across borders may encounter two different types of cultural differences: those between the organizational cultures of the firms concerned and those between the national cultures of these firms' home countries. However, to see these two as completely separate phenomena would be unrealistic. Organizational culture may be assumed to be influenced by the national culture. A comparative study between German domestic and German-Korean acquisitions showed that indeed the national culture was reflected in the organizational cultures (Jöns, Froese & Pak, 2007).

In spite of the growth of the number of cross-border acquisitions, the research in this field is limited. Most of the research links the dimensions of Hofstede to some key factors like performance or acculturative stress (Duncan & Mtar, 2006; Very et al., 1996; Jöns et al., 2007; Lubatkin, Calori, Very & Veiga, 1998). Duncan and Mtar (2006) see cultural fit as a vital success factor for international acquisitions. This indicates that culturally distant mergers would have less chance of succeeding, but Morosini, Shane and Singh (1998), in contrast, concluded that mergers between companies from distant cultures can actually outperform mergers between culturally closer countries. Mergers with companies from culturally distant countries offer access to more diverse routines and repertoires. These routines and repertoires have the potential to enhance the combined firm's performance over time.

One can conclude from these results that the influence of national culture differences is not as clear as it may initially appear to be. Salk and Brannen (2000) concluded in a study of a management team of a German-Japanese international joint venture that the role of

national culture was far less direct and deterministic than suggested in prior research. The groups that they analysed showed volition to accept and adapt to local emergent norms, rather than to act on national sub-group based preferences. But even though the influence of national cultural differences is not clear, when analysing the organizational cultures of two merging organizations from different countries it is important to be aware of a possible effect of national culture, over and above that of organizational culture differences.

In this dissertation the core attention will be on the organizational cultures of the merging companies and the social identities of the employees. The influence of national culture on the organizational culture will not be measured separately but it is seen as potentially having an influence on the perspectives of the employees. Especially in the beginning of a merger or an acquisition, employees tend to stereotype the employees of the other company in national terms.

A complicating factor of studying a particular cross-national merger is the difficulty of empirically disentangling the effects of cultural differences at the national and the organizational levels. In the case we studied, most of the respondents shared a national culture (Dutch) and an organizational culture (that of KLM). This makes it impossible to say to what extent perceived differences are due to national and to organizational cultures. However, KLM also has non-Dutch employees, in particular in foreign establishments. This offers the possibility to gauge the effect of national cultural differences, as it can be expected that, if an employee of the acquired firm has a national cultural background that is more congruent with the national culture of the acquiring firm, he will perceive smaller differences between the firms. This leads to the following proposition:

*If the distance between the national culture of an acquired-firm employee and the home country culture of the acquiring firm is smaller, the perceived differences between the two organizational cultures will also be smaller*

Hofstede's dimensions have been used in many studies in which the national culture and/or organizational cultures were compared with each other (for instance: Matsumoto, 1989; Shackleton & Ali, 1990; Schimmack, 1996) and his manner of analysis has been discussed and reviewed in a number of studies (for instance: Leung & Bond, 1989; Drogendijk & Slangen, 2006; Chakrabarti, Gupta-Mukherjee & Jayaraman, 2009; Stahl & Voigt, 2008). Even though it may not be an ideal manner of measuring national culture it is adequate enough to establish the cultural distance between the nationalities and the alternatives so far have not been as widely accepted and used as the dimensions of Hofstede himself. Therefore the dimensions of Hofstede will be used combined in a formula of Kogut and Singh (1988).

As mentioned several times, the main foci of this study are organizational culture and social identity. In the next section we will discuss how these two concepts are related and mutually influence each other.

## **2.5 The mutual influence of organizational culture and social identity**

As mentioned above organizational culture can be seen from several perspectives. Looking from the perspective of the whole company it can be seen as “shared meanings” that form a guideline for the actions of the employees. The question then is what the impact of these shared meanings is on the feeling of identity of the employees. Do employees see all the members of the company as an in-group, and does awareness of a shared culture play a role in that? Looking from a more fragmented perspective the shared meanings refer to subcultures within the organization, and the question from this perspective is: what is the impact of these subcultures on the identity of the employees?

## **Organizational culture seen as “shared meanings” throughout the entire organization**

The research that concentrates on the perspective of the whole organization has focused mainly on the basic constructs: organizational culture and organizational identity and the relationship between them. Organizational identity can be seen as a form of social identity. In the SIT the emphasis is on the identification with a social group and the organization can be seen as a special form of a social group, that the employees want to identify with in order to differentiate from other social groups (organizations). This means that employees define themselves in characteristics that are representative for their organization.

Organizational identification has been described as a process of self-categorization (Dutton, Dukerich & Harquail, 1994; Vora & Kostova, 2007) in the sense that individuals categorize themselves into groups. It has been a struggle, within the research field, to see the concepts organizational identity and organizational culture as distinguishable, because most of the time they seem to be intertwined. And yet one can identify with an organization without internalizing the culture and one can internalize the culture without identifying with the organization (Ashforth & Mael, 1989). Zaheer et al. (2003: 185) simply define organizational identity as “who we are” and organizational culture as: “how we do things around here”, but these definitions don’t do justice to the complexity of the concepts and their mutual influences. Dutton et al. (1994: 243) use the concept *collective* organizational identity and define it as: “the beliefs that members share as distinctive, central and enduring about their organization”. In their perspective an organization has cultural forms (rituals, ceremonies and stories) that, by encoding and reproducing, objectify and communicate to organizational members the collective organizational identity. In the definition of Dutton et al. the organizational culture is a “tool” to communicate the collective organizational identity.

Next to collective organizational identity they use the concept *perceived* organizational identity which refers to the beliefs of an individual member of the organization. It is: “.... a member’s beliefs about the distinctive, central and enduring attributes of the organization”. (Dutton et al., 1994: 244). The perceived organizational identity will affect

the identification of a person with the organization (Dutton et al., 1994). Ashforth and Mael (1989) argue that the organizational identity (seen as shared understanding of the central, distinctive and enduring character of the organization) is *reflected* in shared values and beliefs. This can be seen in the claim of uniqueness as a characteristic of organizational culture. The managers can emphasize a distinctive and positive organizational identity (this is a group-specific claim) and this attracts recognition, support and loyalty from the employees.

Ravasi and Schultz (2006: 437) suggest two possible perspectives of organizational culture in relation to organizational identity. The first perspective emphasizes organizational culture as a “signifier” of the organizational identity. This means that shared values and beliefs “help organizational members to substantiate their identity claims.” The second perspective sees both organizational culture and identity as collectively shared interpretive schemes but the organizational culture is more tacit and autonomous and rooted in shared practices, whereas organizational identity is seen as relational (which means that it needs external comparison) and as consciously self-reflective. In the first perspective the organizational culture serves as a sense-giving tool and in the second perspective the organizational culture functions as a sense-making tool (Ravasi & Schultz, 2006).

Hatch and Schulz (2002) refer to both concepts by making an analogy with Mead’s “I” and “me”. The organizational “me” (identity) is formed through the process of mirroring. That is, the outsiders’ (others/external stakeholders) views are used to construct a mirrored image of the organization. These images are then used to reflect upon the organization. The result of this reflection is the gradually increasing awareness of the deeply held assumptions and values by the members of an organization, which is the culture of the organization. The organizational culture is seen as the “I” of Mead. Hatch and Schulz defend this by conceptualizing organizational culture as operating beneath awareness, residing in deep layers of meaning and a context for all meaning-making activities. The reflection is seen as the process that embeds identity in culture. Organizational identity has another link with organizational culture in expressing the cultural understandings to the outside of the organization. These expressions in their turn leave impressions on the “others”.

The whole process of mirroring, reflecting, expressing and impressing is covered by Hatch and Schulz (2002) in an organizational dynamic model. Hatch and Schultz' model can be compared with that of Dutton et al. (1994). They translated the influence from the outside into the organization in "construed external images" which refers to the question: "What do outsiders think of me because of my association with the organization?" This external image acts as a mirror and is tied to the concept "corporate image", "an impression that the organization makes to outsiders and insiders" (Dutton et al., 1994: 249).

The dynamism is seen in the continuously social constructing of the organizational identity through the interaction of all organizational stakeholders who interchange internal and external definitions of the organization. Hatch and Schultz (2002) expanded their model by adding possible dysfunctions. One dysfunction is organizational narcissism, this is seen as the construction of an identity that solely refers to the organizational culture, thereby losing the mirroring and impressing process. The other dysfunction is hyper-adaptation, which is seen as paying too much attention to the external stakeholders, whereby the organization loses self-definition and reflection and ultimately its culture. Both dysfunctions are seen as mostly temporarily phenomena.

The conclusion from the research discussed above is that the concepts of culture and identity seen from the organization as a whole are not easily distinguishable, and adding a new concept like "collective organizational identity" even further complicates the knot. The difference that is most clearly expressed is connected with the awareness and visibility. The identity of an organization is more visible to the employees and outsiders than its culture. It is reasonable to assume the version of Hatch and Schultz in their distinction that organizational culture "is founded on a broad-based history that is realized in the material aspects". Studies of organizational identity can focus on the expression of these material aspects but the realization and interpretation of those aspects is situated in the field of organizational culture research (Hatch & Schultz, 1997: 358). This means that the organizational culture can best be seen as a "shaper" of the organizational identity. It builds and forms the identity of the organization both for the employees and for other stakeholders. Organizational theories have mostly looked at

organizational culture as a phenomenon inside the organization. Organizational identity is more associated with influences from the environment and can in turn through these external images influence the culture.

### **Organizational culture seen as different subcultures**

Large organizations can be seen as entities consisting of several parts. These departments and sub-departments can be more or less culturally diverse, depending on the criteria used to differentiate between them. The social identity can therefore be multilayered. According to Ashforth and Mael (1989: 22) “the organizationally situated social identity may, in fact be comprised of more or less disparate and loosely coupled identities”.

This appears most prominent when observing employees in subsidiaries of large enterprises. Vora and Kostova (2007) conceptualized a model of *dual identification* by observing subsidiary managers in multinational enterprises. In their model they assume that identification with more than one entity is possible, but the cultural distance between entities can be an impediment for this phenomenon.

These authors described the concept of *dual identification* by using two characteristics: relative magnitude (which refers to the relative strength of the sense of identification with each of the two entities) and form (which refers to the perceived sense of the degree of overlap between the identifications with each entity).

They proposed that when the entities are more culturally distant, the managers will experience distinct organizational identifications with these entities. The result can also be shifting from one identity to another: “....managers may find it difficult to simultaneously identify with both entities and will likely “switch” between their identifications” (Vora & Kostova, 2007: 338).

This switching of identity can also occur when an employee changes from one department to another or from one work-unit to another. But then it can mean a slow elimination of the former group identity. More than one social identity occurring at the same time will result in a dual or multiple identities.

Some researchers emphasize the dynamism of the social identity concept. Beech and Huxham (2003) for instance claim that identities are generally made up of a combination

of social categories and that different categories may come to the foreground at any one time. This image suggests a continually shifting of identities but these authors also argue that identities sometimes become crystallized, and having more than one identity may cause conflicts between them. This tends to be resolved by cognitively ordering, separating or buffering the identities (Ashforth & Mael, 1989). Van Leeuwen et al. (2003) underline in this respect the *sense of continuity*. They found that the perceived continuation of the premerger group identity strengthened the identification with the post-merger group. This sense of continuity may lead to embracing the post-merger group but this does not mean that the merger partner is seen as an integral part of this identity. Employees can identify with a common super ordinate group and simultaneously discriminate against other subgroups.

The identification with a subgroup can be stronger than that with the whole organization. Van Knippenberg and Van Schie (2000) found evidence to support this statement. In a study in which they analyzed a division of a local Dutch government and a faculty of a university they found that the identification with the work-unit was stronger than the identification with the organization. This might result in employees being unwilling to transfer to another work-group thereby influencing the mobility within the organization. It could also elicit feelings of competition or even hostility between work-groups.

The research mentioned above would implicate that within the social identity theory the more stable phenomenon of social identity can form an impediment when two large companies merge. However given the multilayered function of social identity, the melting of subcultures would be more easy, if the sense of continuity could be kept intact for a considerable time and if the perceptions of procedural, distributive and interactional justice would be considered. In order to achieve this one must interact intensively with the “other” group.



## 2.6 Conclusion

In this chapter organizational culture and social identity have been described as relatively unstable phenomena. Social identity can be seen as even more flexible in the sense that an individual can choose to change his social identity in a relatively short period of time.

The social identity is formed every time a person joins a group and is therefore based on what an individual shares with the members of specific groups. The process of identifying oneself with a group depends on several factors like the importance of the group for the individual, the status of the individual within the group, and the status of the individual as a member of the group outside of the group. The social identity theory studies this process of identification with groups and specifies three processes: Social categorization, social comparison and social identification.

Social identity theory assumes that individuals strive to maintain a positive self-image (Ashforth & Mael, 1989). In making comparisons between the group one belongs to (the in-group) and a comparable other group (the out-group) individuals will strive to form positive stereotypes of the in-group and negative ones of the out-group (Terry et al., 2001). The social identity theory predicts that individuals belonging to lower status groups will develop strategies to improve their social identity. These strategies have been identified as: mobility, competition and creativity (Tajfel & Turner, 1986; Haslam 2001; Ashforth & Mael, 1989).

Creativity and competition are seen as responses to having a disbelief in social mobility (Tajfel & Turner, 1986; Haslam 2001; Ashforth & Mael, 1989). Competition is usually seen as a negative response to organizational changes but it can also be seen as having some advantages, like crystallizing what identity matters most and possibly serving to motivate problem-focused behaviour and in addition serving to motivate positive deviant behaviour (Ashforth et al., 2008). Creativity is seen as a more positive response to having a disbelief in social mobility but it can focus too much on the in-group perspective and therefore result in forming an impediment in being able to build a super ordinate identity. The three responses mentioned above will be the main focus when studying social identity in the acquired firm in this case.

During an M&A integration process one can argue about what would be considered the lower-status firm but it seems reasonable to assume the position that the acquired organization is perceived by its members as such and within this study some interview fragments are presented to illustrate this viewpoint.

As identification may be expected to be influenced by the qualitative characteristics of the group, analyzing the culture of the organization could give us more insight in this process. The shared meaning, values and practices of the organization can form a source of attraction to the individual employee. Therefore the concept of culture was studied in this chapter.

Organizational culture can be described from a dichotomous viewpoint. On one side we see a pragmatic view which regards organizational culture as something an organization “has” and on the other side we see the purist perspective which views organizational culture as something an organization “is” (Gertsen et al., 1988).

With these perspectives in mind a lot of research has been done on the issue of cultural fit between organizations in which the overall assumption was that the chance of success of an M&A would be higher if the cultures of the organizations were compatible (Weber, 1996; Cartwright & Cooper, 1993; Cartwright & Cooper, 1995).

Regarding the “post merger stress” notion (Panchal & Cartwright, 2001; Buono & Nurick, 1992; Marks & Mirvis, 1997; Appelbaum et al., 2007) I assume that there is a possibility that the perception of the “other” culture will take an exaggeratedly negative form and that therefore the perceptions of the other firm’s culture will likely change as the collaboration process between the employees evolves. Using the several stages that some researchers have indicated (Fugate et al., 2002; Ring & Van Ven, 1994), the prediction is that this change would first be negative (perceived cultural differences become larger) and later positive (perceived cultural differences become smaller).

Because this case involves two companies with different national backgrounds and because several employees with a number of nationalities are employed within the acquired firm the national culture is also a relevant focus in this study. Even though a

number of major cross-cultural research projects have been carried out during the last thirty years, Hofstede's dimensions were chosen as a means to determine the perception of cultural distance because his dimensions were used and discussed in an overwhelming number of studies (for example: Matsumoto, 1989; Shackleton & Ali, 1990; Schimmack, 1996; Leung & Bond 1989; Drogendijk & Slangen, 2006; Chakrabarti et al., 2009; Stahl & Voigt, 2008).

Finally organizational as well as national culture can be seen as “shapers” of the social identity of the employees, and since culture is a multilayered concept this can cause a dual or multilayered identity.

In the above chapter several propositions have been developed and in the overview below they are recapitulated.

**Table 2.1:** Overview propositions

<b>Social Identity:</b>
When the employees of the lower status firm engage in more competitive behavior, they will identify less with the new organization. (Competition)
When employees of the lower status firm see more opportunities for social mobility in the new firm or the higher status firm they will identify more with the new organization. (Social mobility)
When the employees of the lower status firm develop new perspectives to compare themselves favorably with the “other” firm they will identify less with the new organization. (Social creativity)
<b>Organizational culture:</b>
In a merger the perceived cultural differences between the firms involved will in the postmerger period first increase, and then decrease.
In high interaction groups perceived cultural differences will first increase and later decrease.
In low interaction groups perceived cultural differences will remain constant.
The perceived cultural difference between two merging firms will differ between departments
<b>National culture:</b>
If the distance between the national culture of an acquired-firm employee and the home country culture of the acquiring firm is smaller, the perceived differences between the two organizational cultures will also be smaller

## **Chapter Three: Data and methods**

### **3.1 Introduction**

As was mentioned in Chapter One there are a number of possibilities to observe changes within a company during a certain time period. We can analyze financial parameters like return on investment, return on assets, stock price fluctuation or changes in market shares. To observe and measure more subjective experiences of the employees we can gauge experiences like job satisfaction or commitment and observe events like turnover (Hogan & Overmeyer-Day, 1994). The option that was chosen for this dissertation was to measure the perception of the employees.

Measuring perceptions differs from looking at objectively observable phenomena. For instance, the mobility of workers across organizational boundaries as perceived by employees may be different from the actual mobility as reflected in, e.g., the personnel administration. We can assume however that the perceptions of the employees are likely to influence their behavior even when they are not completely in accordance with the facts.

This chapter will outline the methods of data collection, the operationalization of the variables, and the methods of analysis. First the sample will be described including the process of collecting the data, then the variables and their operationalization will be discussed and the chapter will be concluded with a description of the choices made for analyzing the data.

## **3.2 Description of the case, the sample and data collection process**

### **The case**

In this dissertation employee identification and organizational culture are studied in the integration process following the acquisition of KLM by Air France. Researchers recurrently came to the conclusion that the acquired organization is generally seen as the lower-status organization, and that employees of the lower-status organization often show more dissatisfaction and resistance to a merger or acquisition than employees of the higher-status firm (Terry, Carey & Callan, 2001; Hubbard & Purcell 2001; Dackert, Jackson, Brenner & Johansson, 2003; Covin, Sighler, Kolenko & Tudor, 1996; Buono & Nurick, 1992). These findings led to the decision to focus on the acquired company, in this study this is KLM. The brief description that follows will serve as background information.

KLM Royal Dutch Airlines was founded in 1919. In 1920 it received its first aircrafts (two Fokkers F11s). The first flight was in 1920 from Schiphol to London (on board were the first CEO Albert Plesman, an engineer and a journalist). During the first years KLM used Dutch-built aircrafts (Fokkers), but later it was decided to use American aircrafts (Douglas DCs). In the seventies KLM added 747 Boeings to its fleet, which marked the beginning of the “wide-body” era. After the year 2000 Boeings 777 and Airbus aircrafts were bought.

KLM had and has no domestic flights, and overall a small home market. This situation has strongly influenced KLM’s strategy. The only way to grow beyond the confines of the small home market was to attract passengers to travel to their final destination via hub airport Schiphol. This resulted in a “shark strategy” to “steal” customers from other flag carriers. As these competitors offer direct connections on many routes on which KLM competes with indirect flights, KLM had to be “lean and mean”. This characteristic resulted in comparatively flexible policies with regards to adding and dropping connections, and also extended to a pioneering role in cooperative strategies like joint ventures, the most important of which was the JV with Northwest (Jagersma, 2003). Over

time, the Board of KLM became convinced that with the liberalization of the airline industry consolidation of the airline industry would become inevitable, and that KLM with its small home market needed to team up with one of the bigger players in Europe.

#### *Prelude to the Air France-KLM Merger*

In order to understand the significance of the merger with AF for KLM, it will be useful to look a bit more closely at the events that preceded this merger, in particular two failed mergers attempts (with Alitalia and with British Airways), as well as at some particular characteristics of the company and its environment at that time (this description is based on Jagersma, 2003).

In 1997 Alitalia was looking for a new partner and initially tried collaboration with AF, but the route structures of the two companies showed too much overlap and the difference in size between the two companies was also seen as an impediment. Many Italian politicians however preferred AF as a partner. KLM was considered to be more suited by the management of Alitalia because of its smaller size and because of a more complementary route structure. KLM considered Alitalia to be an attractive partner because it could provide access to the two hubs Milano and Rome, and because KLM would be able to maintain its own identity in the merger.

In 1998 a strategic alliance was officially announced between the two partners, but almost immediately problems became apparent. The partnership continued to be postponed due to the fact that a number of management positions could not be filled. Another problem was that the local government of Rome was not pleased with the decision to transfer 10% of the flights to Milano. But the newly modernized hub Malpensa of Milano appeared to be the main problem. The infrastructure was problematic and some environmental problems emerged. The policy was to transfer most of the flights from the airport Linate, which is a lot closer to the city of Milano, to the new Malpensa airport, but access by roads and railways to this new airport was underdeveloped. The government of Italy decided to transfer the flights to Malpensa despite of these problems, upon which several airlines (Lufthansa, AF, SAS, BA)

protested by means of an official complaint to the European Committee. Alitalia tried to comply and decided that Linate would remain to function for 6 to 7 million passengers. The Italian government however decided to force the flights to Malpensa. And even though KLM had invested a large amount of money in developing this particular airport because KLM needed a good second hub, it decided, although the alliance was meant to evolve to a more consolidated form (and even labeled an “almost merger”), because of the problems mentioned above and the deteriorating relationship with Alitalia.

KLM was facing several problems at the end of 2000, one of which was the above failed alliance that required time, energy and money to be dismantled. Other semi-related problems were: poor financial performance (in 1999 hardly any profit), a low stock price, a damaged external image, structural overcapacity due to the crisis in Asia, some pressure on the relationship with Northwest Airlines (NWA), a not very well functioning internet-strategy and demoralized employees. Moreover, financial results were held back by fiercer competition, a strike at NWA, and an overall disappointing growth in the airline industry.

In February 2000 the company faced a loss of 39 million guilders (results of the last three months of 1999) and in March measures were taken and announced as “Operation Baseline”. It consisted of the following decisions: layoff of 2000 employees, a diminishing of the fleet by 7 airplanes, discontinuation of unprofitable routes and reduction of investments in computerization and other overhead costs. These measurements would result in a retrenchment of 700 million guilders.

In the spring of that year (2000) it became clear that “Operation Baseline” was not enough to get KLM back on track. KLM therefore turned towards British Airways (BA) for a possible partnership. BA had financial problems at that time, too. The market value of BA was five times that of KLM, however. One of the reasons for this, besides of KLM being a smaller company, could be that the Dutch airline had sold its participation share of 20% in North-West Airlines and its fleet was not as modern as it should be.

The goal of BA was to expand and make their position stronger on their home market, and KLM might be of use, among other things because of its strong KLM UK subsidiary.

The negotiations however were extremely problematic from the start. On the one hand KLM aimed for a share of 30 % in the merged firm, which considering the value proportions mentioned above could have been “a bridge to far”, on the other hand the objective of BA to position KLM as subsidiary was not acceptable for KLM. Moreover the Open Sky agreement that KLM (or rather, the Dutch state) had settled with the United States was not transferable to a possible merged firm. BA had a very restrictive agreement with the United States called the “Bermuda II pact”. The CEO of KLM, Leo van Wijk, was determined not to dissolve the Open Sky agreement, but the United States by means of an official in the White House were very clear on the matter: “The US will not allow British Airways to use a merger with KLM, the Dutch flag carrier, as a back door to achieve greater access to our market” (Dorothy Robyn, senior White House official, quoted in Jagersma (2003: 286). In September of that year (2000) the Financial Times reported that BA had abandoned the deal with KLM. A Dutch newspaper provided this commentary: “Because KLM needed BA more than vice versa they could hardly expect a lot of concessions from the British side” (NRC Handelsblad September 22<sup>nd</sup> 2000).

The result was again damaging to the image of KLM and their management. The top-management remained in function but several higher level managers resigned. This meant losing some “high potentials” in the strategy, legal and communication departments of KLM (Jagersma, 2003).

The year 2001 ended for KLM with a loss of 156 million euro<sup>1</sup>. This was a difficult year for most airlines due to the effects of the attack on the WTC in New York on September 11. But 2002 and 2003 did not show enough recovery. In February 2003 KLM announced to reduce capacity on a number of flights and on top of that the negative influence of the SARS epidemic reduced the possibilities even further.

This led again to a search for a new partner and informal meetings with Air France were held. For both airlines the possibility of collaboration was interesting because Delta Airlines, the American partner of Air France and Alitalia in Sky Team, could cooperate with KLM partners Continental and Northwest, and Air France and KLM would also be a

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<sup>1</sup> The following description is based on the reports of several newspapers.



good combination in terms of complementary route networks. KLM would gain an important hub in Paris, which is considered a central destination in Europe as well as an intermediate stop for on many routes. For Air France gaining the hub Schiphol would be advantageous because it would mean that a third airport in Paris would not be necessary. The merger would also be a means to diminish the interest of the state of France in AF from 54% to a minority status. In a nutshell, The New York Times described the situation of the two airlines as follows: “For Air France, the deal crowns a seven-year comeback from near-bankruptcy in the mid-1990's. For KLM, which has been struggling to reverse losses by imposing job cuts, a merger represents a quick injection of capital and a strong partner” (The New York Times, October 1 2003).

However, during the negotiations between the two airlines some problems arose. Overall a large amount of criticism developed from the side of some labor unions, media and economic experts, and even the Dutch government hesitated because of the potential job-loss. The cockpit crew for instance by means of the VNV (Vereniging Nederlandse Verkeersvliegers) demanded guarantees that no reduction of jobs and flights would occur. Flight reductions could be a claim from the European Commission, to avoid a too dominant market position of Air France-KLM, and KLM cockpit crew feared that this would result in mainly reducing KLM flights. Loosing the Dutch identity was also a fear that was expressed by one of the representatives of KLM in a Dutch newspaper. The identity of KLM meant an overall feeling of pride and belongingness for the employees. Moreover, the identity question, in a more formal sense, could also have consequences for the landing rights in approximately 130 countries. In September an agreement was found concerning the landings rights, the position of Schiphol was guaranteed for number of years, and on 30 September 2003 CEOs Jean-Cyril Spinetta and Leo van Wijk officially announced the planned merger between KLM and Air France. The Dutch government agreed to have an interest in the new company of 14,2% and the French government would have an initial interest of 44%. One Dutch newspaper emphasized that although announced as a merger it actually was an acquisition (Het Parool, September 30 2003). Several news sources emphasized that the new organization intended to keep the two brands as separate entities.

The new firm was announced to be a holding with two separate operating companies who would be flying under their own colors and would have three core businesses: passengers, cargo and aircraft maintenance. Jean-Cyril Spinetta was announced as the chief executive and Leo van Wijk was denoted as his deputy, while remaining head of KLM. The announcement of the merger meant an agreement between the CEO's, but for the merger to become a fact some issues still had to be solved. The first issue was approval by the European Commission that had to decide if the proposed merger was in line with EU competition rules. If the Air France-KLM combination would be regarded to become too dominant on certain routes, the Commission could stipulate that the new company would have to hand in a number of slots at certain airports. Not only the European Commission but also the USA competition authorities had to give their consent, because of the collaboration with the US partners. Other issues for KLM were to come to an agreement with the works council and the labor unions. AF on the other hand needed the authorization of the supervisor from the French government, as well as the agreement of the labor unions. And both companies needed the approval of the shareholders, of course. October the 8<sup>th</sup> a Dutch newspaper reported "additional demands" of the Dutch government. These demands were: additional agreements pertaining to Schiphol, a right to claim taxes on the profits of KLM and a position in the board of a governmental official (Utrechts Nieuwsblad).

On October the 16<sup>th</sup> a solution was found for the demands of the labor unions of KLM. It entailed a job guarantee of 5 years. On the 11<sup>th</sup> of February 2004 the European Commission gave its permission for the acquisition. Both airlines agreed on releasing some of their slots to give other airlines a fair chance to compete on specific routes (this pertained to slots in Amsterdam and Paris, but also in Lyon, Toulouse, Marseille and Bordeaux). Transatlantic flights were released from Paris to Detroit and Amsterdam-Atlanta and Amsterdam-New York meaning that the operating rights were made available for other airlines. The following day the American authorities also gave their consent. One Dutch newspaper argued about the submissive position of KLM in these bargains and mentioned a response of Van Wijk who emphasized opportunities with Alitalia concerning the "slots" for KLM which were already agreed upon between AF and Alitalia (Het Financieele Dagblad, February 12 2004).

The new company Air France – KLM was officially formed on May 5, 2004. It became immediately evident that the word “acquisition” was never used in the first phase of the integration process. Every manager and employee used either the word “merger”, or the even more careful terms “combinatie” (in Dutch) or “rapprochement” (in French). The decision of the two CEOs, Spinetta and Van Wijk, was to use a model in which the two airlines would continue to coexist for the first 5 years, an approach that can be compared to the “preservation” and “symbiosis” forms of Haspeslagh and Jemison (1991). Both brands were kept intact (this was also a guarantee demanded by both national governments) for a five-year period, and it was left undecided whether this would change in the subsequent period. The management of the acquisition was inspired by the model employed in the Renault-Nissan alliance. Hence, although formally a friendly acquisition, the management approach was to regard it as a form of collaboration. The relatively independent position that KLM maintained after the acquisition was also reflected in the slogan employed: “one group, two airlines, three businesses” (with the businesses referring to Passengers, Cargo, and Engineering & Maintenance). The holding company Air France – KLM held all the shares in the two operating companies, AF and KLM. The administration of the group was executed by the Strategic Management Committee (SMC), in which managers from both organizations were equally represented (four members from each firm, with a decisive vote for the Chairman, AF CEO Spinetta). In October 2007 this committee was replaced by the Group Executive Committee (GEC), in which the rule of equal representation was no longer applied. This resulted in a larger number of French compared to Dutch members in the GEC (with one French member, Gagey, representing KLM). According to some observers this reflected a gradually more dominant position of Air France.

### **3.3 Description and circumstances of the research process**

Our research team started negotiating research access soon after the public announcement of the merger, and in the summer of 2004 a four-party agreement between Air France, KLM, EM Lyon and Tilburg University was finalized, granting us access to study the post-merger integration process. We observed the integration process from June 2004 (first meeting with research team Tilburg/Lyon and KLM and AF representatives) till March 2008 (last meeting with research team of Tilburg and representatives of KLM).

#### **Research-Team**

We conducted our research with a team in the Netherlands from Tilburg University (three members) and a team in France from EM Lyon (initially three, later four members). Working with multiple researchers can have two advantages. Firstly it enhances the creative potential of the study, and secondly the convergence of observations amplifies confidence in the findings (Eisenhardt, 1989).

Studying behavior within work settings in different national cultures can be difficult because each researcher has his/her own cultural bias (Teagarden, Van Glinow, Bowen, Frayne, Nason, Huo, Milliman, Arias, Butler, Geringer, Kim, Lowe & Drost, 1995). A multicultural team can serve as a solution to this problem. Teagarden et al. (1995) argue that *equivalency* is the goal of research that concerns different cultures. For instance translations should be equivalent rather than identical and multicultural teams are better able to achieve this equivalence. In our study this equivalence was obtained by administering several meetings between the team members in which we discussed the items for the questionnaires and in addition the organizing of several meetings with both companies before the start of the questionnaire survey.

Our research process can be divided in five stages: 1. Initial meetings between two key members of the teams and key members of the companies and decision to start this research. 2. Forming the teams. 3. Developing the research questions and the interview protocols. 4. Conducting the research. 5. Making sense of the findings. These stages

correspond largely with the stages of the Teagarden et al. (1995) framework. The stages, however, were not entirely sequential. As our study encompassed several rounds of research, with feedback of results to the companies after every round, we had regular meetings with the entire research team to discuss and interpret the findings. The interview experiences were elaborately discussed and shared between the Dutch and the French members, leading most of the time to small changes in the interview protocol for the following round. In contrast, the questionnaires remained almost unaltered during the entire research process.

Easterby-Smith and Malina (1999) concluded in their cross-cultural team research that political elements influenced the mutual perceptions of the researchers. National external funding (on both sides) resulted in pressure on both teams and each group attributed academic motives to itself and slightly less positive, practical and commercial motives to the other national research group. We had no external funding so this source of mutual negative bias was absent. We did notice that both the French and the Dutch team displayed slightly more identification with their own research object (KLM or Air France), but we succeeded in obtaining a reasonable form of *reflexivity*. Reflexivity is obtained according to Easterby-Smith and Malina (1999) by using information from each other in order to develop insight into one's own perception. In our case it meant that we were more able to recognize our own identification as a result of our interaction with the other team members, and to avoid these identifications unduly influencing the interpretation process.

Striving for the above-mentioned equivalence meant not only using the same questionnaires and interview protocols, but also conducting the interviews in comparable departments. For the establishments outside the home country we selected sales offices in the same (European) countries, but sometimes these were not in the same city (e.g., in Italy the KLM office was in Milano, the Air France office in Rome). This dissertation concentrates on the KLM side of the acquisition. In the following section therefore the sample of KLM will be discussed more in-depth.

### 3.4 The samples and the data collection process

As was mentioned above the research was done during a period of about three and a half years and consisted of 6 rounds of data collection. Each half year a round of interviews was conducted and questionnaires were distributed. The only exception was the sixth and final round, which was conducted a full year after round five. The decision to postpone this final round was made in order to be better able to gauge the longer-term effects of the integration process. Every round of interviews was preceded by meetings with managers who acted as informants concerning what had happened within KLM and Air France since the previous round. Often these informants were EVP's (Executive Vice Presidents, i.e., chief executives of departments). They not only elaborated on the state of affairs but also helped with the planning of the interviews and the planning of the distribution of the questionnaires in their department.

In close consultation with the companies we selected a number of departments that: (a) varied in the extent to which they were influenced by the merger; (b) varied in the type of jobs performed and the educational level of the employees; and (c) reflected the specificities of the airline industry. Our sample initially consisted of the following departments:

- *Engineering and Maintenance* (technical jobs, specific to the industry, relatively low impact of the merger)
- *Cabin Crew* (service jobs, specific to the industry, very low impact of the merger)
- *Ground Services at the hub* (service jobs, specific to the industry, low impact of the merger)
- *European Sales Establishments* (sales jobs, not very specific to the industry, strong impact of the merger; we studied the establishments in Stockholm, Zurich, Milano, Madrid, London and Frankfurt)

- *Headquarter departments* (various specialist jobs, not very industry-specific, strong impact of the merger; we studied Network Planning, Information Services, Corporate Communication, Pricing and Revenue Management, Corporate Control, and HRM)

During the study two additional departments were included in the study: Cockpit Crew (based on reactions of pilots when we were distributing questionnaires to the Cabin Crew, but not to them, in the Crew Center), and Cargo (based on a conversation with a Cargo manager on a plane to Amsterdam, after a meeting with Air France in Paris). Cockpit Crew was included from round 2 onwards, Cargo from round 3 onwards.

- *Cockpit Crew* (highly specialized jobs, industry-specific, very low impact of the merger)
- *Cargo* (various managerial and commercial jobs, not very specific to the industry, strong impact of the merger)

### **Survey samples**

Three methods were employed to distribute questionnaires. Where possible these were distributed via the internal mail system by contact persons within the departments (who were instructed by the chief executives of the departments). This procedure was followed for Engineering & Maintenance, European Sales establishments, Ground Services, Cargo, and most of the Headquarter Departments. In other cases we sent the questionnaires to the home addresses of randomly selected employees (the selection was done by us on the basis of full lists of employees). This procedure was used for HRM, Information Services, and in the final round also for Ground Services. Finally, for some departments (Cabin Crew, Cockpit Crew and Ground Personnel) we distributed the questionnaires personally, order to make sure that we would have an adequate response from these categories of personnel. We handed out the questionnaires in the Crew Center (Cabin and Cockpit crews) and in the lounge for Ground Services personnel, where the respondents

had the opportunity to fill out the questionnaires. Many flight crew members preferred to take the questionnaire with them and fill it out during their flight, and we provided self-addressed and stamped envelopes for that purpose.

Because of this mix of distribution procedures it is impossible to calculate an overall response rate. For the subsamples that were sent to home addresses the response averaged around 25%. For the departments where the questionnaires were distributed internally the response varied between close to 100% (Corporate Control, first round) to around 20% (e.g., Corporate Communication, sixth round). For the questionnaires that were handed out to Cabin Crew, Cockpit Crew and Ground Services agents it is not possible to calculate a reliable response rate, because not all potential respondents contacted were willing to receive a questionnaire. Overall, we distributed about 300 questionnaires to both Cabin and Cockpit crew members in each round, and the number of responses for these categories varied between 36 and 99, suggesting a response rate between 12 and 33 percent. For Ground Services the response was comparable. These relatively low response rates (taking the intensive approach into account) confirm what KLM managers predicted: these three categories of personnel are more difficult to engage in a study like ours than most others.

The numbers of questionnaires we received from the different categories and over the various rounds are tabulated in Table 3.1 (the Headquarter Departments are aggregated into the single category Corporate Staff).

**Table 3.1: Survey Respondents**

	round 1	round 2	round 3	round 4	round 5	round 6
Corporate Staff	140	135	131	144	119	104
E&M	58	102	98	92	47	43
Cabin Crew	36	62	76	57	44	62
Ground Services at Hub	36	53	42	27	14	70
European Sales establishments	37	108	100	91	65	69
Cockpit Crew	---	75	99	73	68	62
Cargo	---	---	80	72	49	52
Various / Unspecified	8	12	9	18	11	1
Total	315	547	635	574	417	463



## Interviews

For the interviews we asked each sub-department two or three employees to interview, and for larger departments the number of interviewees varied from three to six. After the first round we increased the number of interviews because additional departments were included. Each round we visited three of the six European establishments. Table 2 shows the numbers of interviews conducted in the different the rounds. We also had regular face-to-face and telephone meetings with managers and EVP's who acted as general informants. In each round, we conducted a telephone interview with a representative from those European establishments that we did not visit in person. These meetings and telephone interviews are also tabulated in Table 3.2.

**Table 3.2:** Interviews

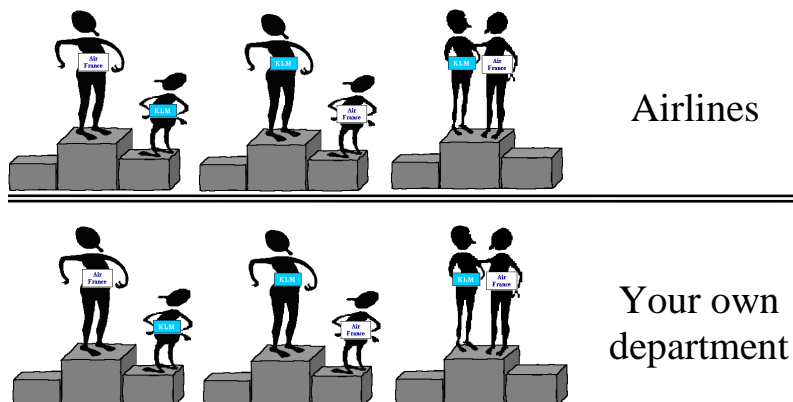
	<b>Interviews</b>	<b>(Phone)meetings managers and EVP's</b>
Round 1	30	12
Round 2	35	13
Round 3	43	12
Round 4	43	8
Round 5	40	8
Round 6	56	5
Total	247	58

The interviews were semi-structured and offered the interviewees the possibility to tell their story in their own words. Most interviews were conducted by a single researcher; in some cases two researchers conducted the interview together. All regular interviews were with individual employees, with one exception: two pilots who were interviewed simultaneously. In many of the meetings with managers and EVP's multiple informants were present. Almost all interviews were recorded and later transcribed verbatim. In the

rare cases that we did not record (either because we did not get permission to do so, or because of a technical problem) extensive notes were made and an interview report written as soon as possible after the interview. The interviews were mostly conducted in a time space of an hour but sometimes lasted longer than that.

The interviews started with asking the respondents to evaluate the relationship between the merger partners with the use of two cartoons (see Figure 3.1 below) to encourage a free association of thoughts without giving too many verbal suggestions. In these cartoons being on the top step could be interpreted as meaning victory as well as superiority. The top position could be interpreted to be taken because of chance, because of a better training, or, of course, because of being bigger or being the acquiring firm. Most of the time the cartoons proved to be a good beginning of the conversation. We were particularly interested in the explanations of the interviewees, and specifically in those cases in which the employee saw a difference between the relative standings of KLM and Air France as a whole, and those of his/her own department and its counterpart at Air France. Our aim was to detect creative means that could have been developed in these perceptions of the employees and would lead to favoring their own department above the same department at Air France, while acknowledging at the same time the superior position of Air France in the merger as a whole, which could be taken as an indication of “social creativity” (Haslam, 2001).

**Figure 3.1** Cartoons used in the interviews



The remaining topics covered in the interviews included: a description of the job of the interviewee, organizational culture, social identity, a comparison of the interviewee's department with the comparable AF department, learning experiences, identification and commitment, justice and trust. With these topics we tried to lead the interviewees to as much elaboration concerning their perceptions of the acquisition and the integration process as possible. We also aimed at reflective thoughts of the employees with respect to the organizational culture of KLM, and a comparison with the culture of Air France. This created the possibility for the Dutch and the French teams to compare the two organizational cultures of AF and KLM, both in the views of the employees of these firms, as in the views of the other firm. Using interviews to complement the data collected by means of questionnaires was a well-contemplated choice that will be reflected upon in the next paragraph.

### **3.5 The use of interviews**

If we truly want to understand the meaning of certain choices or relationships we have to understand the whole context. In an interview the narratives that surround certain ideas can be revealed. Narratives can serve as a creating force for an identity or an organizational culture and they are constructed for different purposes and do different kinds of work. They can give us visions of how the world works and how it should work, according to the interviewee. They can reveal certain symbolic codes that are part of the organizational culture and they can also show us the codes that are shared or debated, or even challenged (Loseke, 2007). Narratives aid in the sense-making process of our identity, our social identity and our culture. Employees create the organizational environment through a sense-making process which is constituted by verbal descriptions that are communicated and negotiated with others (Brown, Stacey & Nandhakumar, 2008). Combining an etic (outside perspective) and emic (inside perspective) view enables us to go beyond general dimensions. The situation at hand can only be explained by way of an "interpreter", in our case an interviewee.

In this dissertation the interviews are used as background information, they informed us about the topics of our research, and helped us to interpret the results. With the help of the interviews it was for instance possible to understand the meaning of certain changes over time in the questionnaire items, which otherwise would have remained mere numerical changes. We could for instance observe that over time, and possibly also as a result of the interaction with Air France, KLM employees started to develop a more critical view of the organizational culture of their own company.

The interviews combined with the surveys, conducted over a relatively long period of time, gave us a rich and elaborate data sample. This is important, as we considered a longitudinal research design to be necessary, because our goal was to observe phenomena and their changes over time. To explain this concept an elaboration on this type of research will follow below.

### **3.6 A longitudinal approach**

When observing a concept and its implications it is often more revealing to examine changes over time. A longitudinal study observes a particular phenomenon over an extended period of time (Saunders, Lewis & Thornhill, 2007).

Most research on the process of M&As is retrospective (Marks & Mirvis, 2001) and uses cross-sectional data (Fang, Fridh & Schulzberg, 2004; Homburg & Bucerius, 2006; Angwin, 2004). Studies tend to either focus on a certain time period (Hubbard & Purcell, 2001; Schraeder 2001; Covin et al., 1996; Panchal & Cartwright, 2001) or compare time periods (Dackert et al., 2003; Birkinshaw, Bresman & Håkanson, 2000). Schweiger and Denisi (1991) therefore stress the importance of the time horizon in research on mergers and acquisitions. They administered a survey study with four different measurement points, but within a total time period of only 6 months. A similar study has been done by Fugate et al. (2002), who compare four stages in a merger, with measurements approximately 3 months apart from each other. However, a longer period might be necessary in describing and explaining post-merger integration processes, as these may

take a much longer period than half a year or a year. The importance of studying this phenomenon within a larger time frame is emphasized by some researchers (Vaara, 2003; Schmidt & Rühli, 2002).

Smith Ring and Van de Ven (1994) expand on this issue and advise to conduct research on inter-organizational relationships in their natural field settings from the beginning to the end. They argue that using such a procedure would make it possible to record both formal and informal dimensions of repeated negotiations and commitments. In this case study of KLM we did observe repeated negotiations and changes in commitments during our research period. This was possible because we witnessed the post-merger process from the beginning, and over a long period of time. In the case of a merger an endpoint cannot be unambiguously be identified, due to the fact that obtaining full integration first of all may also in the future not be the goal, or, if envisaged, might take 10 years or more, and finally might be dependent upon the economic environment. What we did observe in our study was that the extent, speed, and modalities of integration were not explicitly given in the merger and therefore were susceptible to continuous processes of bargaining.

In this dissertation the focus is on two phenomena and their development over time. Therefore a longitudinal approach was applicable as it provided the opportunity to observe and compare time periods. The long duration of the research and the relatively many measurement points enabled us to detect possible undulations in phenomena over time, a possibility which in most other case studies mentioned above remained unidentifiable. This approach can be seen as a combination of the process theory approach which seeks explanations in terms of the sequence of events and the variance theory approach which seeks explanations in terms of relationships between dependent and independent variables (Langley, 1999). In this KLM case the effect of an event (the acquisition) on identification with the new organization and perceived differences between the two organizational cultures is gauged over time.

In summary it can be noted that this case study is a longitudinal study with repeated surveys. Most of the respondents filled out the questionnaire only once or twice during

the six rounds of the study. This means that the six rounds should be seen as repeated samples drawn from the same population, unlike in the cohort form of longitudinal studies, which uses the same sample in every time period (Saunders et al., 2007). The interview protocols were approximately the same in every time period but were adjusted slightly due to experiences of the interviewers with certain topics and their developments over time. In later periods the questions of the perception of the employees of their own culture for instance were less elaborate and we focused more on their learning experiences in their collaboration with the other company.

In this dissertation the emphasis will be on the survey, therefore the variables and control variables used will be explained in the next section.

### **3.7 Variables used in this study**

First the dependent variable, independent variables, and control variables in the empirical analysis focusing on culture will be discussed. After that we will discuss the variables involved in the study focusing on identification with the merged company.

#### **The study focusing on culture**

##### **Dependent variable**

The dependent variable analyzed in this study was the perceived cultural difference between KLM and Air France, constructed on the basis of the answers of KLM employees on a number of items, where they were prompted to indicate the extent to which they deemed an item to be adequately descriptive of the culture at KLM, and that at Air France. We therefore formed a dependent variable by calculating the sum of the absolute differences between the answers on organizational culture items for the “own” company and for the “other” company over the 17 items printed below. These items were a part of the total survey and were rated on a 1 (completely disagree) to 5 (completely agree) Likert-type scale, for both KLM and AF:

1. At ----, employees are responsible for the results of their work
2. At ----, to get work done coordination between colleagues is more important than reliance on the hierarchy
3. At ----, there is good communication between employees and their managers
4. At ----, respecting prescribed procedures is as important as achieving the desired results in one's job
5. At ---- taking initiative is not encouraged
6. At ----, a stronger emphasis is placed on controlling costs on identifying new opportunities
7. At ----, employees often continue to discuss problems, even after a decision has been taken by the management
8. At ----, conflicts are frequently ignored instead of openly discussed
9. At ----, if you want something done you need to address the right people personally
10. At ----, people are well informed of what competitors at other airlines do
11. ---- has a clear vision of the future, that guides short-term decisions
12. At ----, employees tend to keep information to themselves
13. At ----, it is important to try to convince everyone with a stake in a given issue before a final decision is taken
14. At ----, employees are well informed of events happening elsewhere in the company
15. At ----, there are many rules and procedures
16. ---- places a strong emphasis on meeting the needs of internal clients
17. ---- places a strong emphasis on meeting the needs of external clients

### *The choice of the items*

Several researchers developed instruments to measure organizational culture. Some concentrated the items of their questionnaires around a few main dimensions. An example of this method is the Denison Organizational Culture Survey (Denison &

Mishra, 1995; Fey & Denison, 2003). Another example is the Organizational Culture Profile (OCP) of O'Reilly, Chatman & Caldwell (1991), who used an instrument that contained 54 value statements that captured individual and organizational values and the Perceived cultural compatibility score (PCC) of Veiga, Lubatkin, Calori & Very (2000), who developed an index score in which the what *ought to be*, what *was* and what *is* value items were used as weights. These questionnaires could be used, or elaborate upon or adapted to the specific research question (Gregory, Harris, Armenakis & Shook, 2009; Beugelsdijk, Koen & Noorderhaven, 2006; Kalliath, Bluedorn & Strube, 1999).

The advantage of the instruments mentioned above is achieving a high external validity but the disadvantage is that if the questions seem irrelevant to the personal experience of the respondent this might increase the distance between the researcher and the respondent and decrease the response rate. Alderfer and Brown (1972) therefore suggest a form of empathic questioning whereby the questions are formed on the events and experiences of the respondents at the time of questioning.

Our study developed a questionnaire following this line of reasoning. It was built on a pre-merger study performed for Air France and KLM by Inter Cultural Management Associates (ICM), as specialized management consulting firm. The picture of the cultures of Air France and KLM and their most important differences that came out of the qualitative and quantitative ICM study was recognized by managers and employees, and we based our items on these pictures. We also added some additional items on instigation of AF and KLM managers. We went through multiple rounds of consultation of Air France and KLM managers, adjusting the questions each time.

The dependent variable was constructed on the basis of the differences between the answers of each respondent for culture statements pertaining to KLM and to Air France. For instance, if a respondent was of the opinion that the statement: "At ----, employees are responsible for the results of their work" applied very much to KLM, and not at all to Air France, this yielded a difference score of 4.

The dependent variable Perceived Cultural Differences is constructed as the summation of the absolute values of these differences across 17 items, and theoretically varies



between 0 and 68. In practice, we found differences between 0 and 56, with a mean of 14.55.

It is important to consider the nature of this dependent variable. We see it as a latent variable caused by the indicators (i.e., the 17 items). In other words, we do not think that it makes sense to assume that there is a single underlying construct causing the values of the 17 indicators to covary, but rather, an overall measure of perceived cultural difference is nothing else than the summation of perceived cultural differences with regard to a number of concrete issues. For instance, there does not seem to be a compelling reason why a respondent observing a large difference in terms of responsibility for the results of one's work (item 1), would also see large differences in terms of the communication between managers and subordinates (item 3). Accordingly, Perceived Cultural Differences is a formative, rather than a reflective scale (Jarvis, MacKenzie & Podsakoff, 2003).

From a measurement perspective, this has important implications. In case of a reflective scale (or index) strong correlations between the indicators are expected, and indicators that do not covary are excluded from the measure. In the case of a formative scale, in contrast, strong inter-item correlations are considered a sign of redundancy. Conventional dimensionality and reliability tests are not applicable in this case (Diamantopoulos & Siguaw, 2006), instead, it is important to check whether each indicator has a distinct influence on the overall scale. To check this, we regressed Perceived Cultural Differences on the 17 constituent items, and checked for multicollinearity. The highest variance inflation factor (VIF) value we found was only 1.5, far below conventional cut-off points. Hence we conclude that all 17 items have a distinct influence on the index. Finally, we inspected correlations between the 17 items and the index. All correlation coefficients were significant (albeit two only at the 10% level), and therefore we decided to retain all indicators.

### **Independent variables**

We use several independent variables to explain (changes in) the dependent variables. The first independent variables we used were **the rounds** of the study, indicating the

passage of time since the start of the post-merger integration process. In our analyses dummy variables indicating the rounds of the study are either used as explanatory variables, or as control variables.

**Table 3.3:** Rounds and their time period

Round	Period
1	September 2004 – December 2004
2	April 2005 – June 2005
3	November 2005 – January 2006
4	May 2006 – June 2006
5	November 2006 – December 2006
6	December 2007 – January 2008

A second set of independent variables were dummy variables indicating the different **departments** represented in our study. The respondents' membership of these selected groups was seen as a factor that could possibly explain differences in the dependent variables, because the departments differed in important dimensions (as discussed above).

The third independent variable, **interaction intensity**, was constructed by creating a high and low-interaction group. It was based on the degree of involvement of the employees of KLM with the employees of AF. We allocated respondents to either of these two groups based on our interviews and discussions with the KLM managers. A more extensive explanation regarding this topic will follow in Chapter Four.

To analyze the last independent variable, **nationality differences**, we looked at employees with a nationality different from Dutch and French, and who worked for KLM either in Holland or in the establishments outside the Netherlands. We then measured the cultural distance between their national culture to the French culture (the culture of the acquiring firm) using the formula of Kogut and Singh (1988). The Kogut and Singh formula uses Hofstede's indices to compose an index of national cultural distance. The differences on each of the four cultural dimensions (power distance, uncertainty

avoidance, masculinity/femininity and individualism/collectivism) of a particular country to another country are measured and combined into a single metric, correcting for the differences in variance in the four dimensions.

$$CD_j = \sum_{i=1}^4 \left\{ (I_{ij} - I_{iu})^2 / V_i \right\} / 4$$

$CD_j$ : Is the cultural distance for the  $j$ th country from the focal country (in this case France)

$I_{ij}$  stands for the index of the  $i$ th cultural dimension and the  $j$ th country

$V_i$  is the variance of the index of the  $i$ th dimension

$u$  indicates the focal country

### **Control variables**

We used three control variables to account for other influences on the cultural differences between the two organizations, as perceived by the employees. The first one we used was the number of years the respondent had worked for KLM. This might have an influence on their perception of their own culture and therefore also on their comparison with the Air France culture. The second control we used was gender. Being male or female might influence perceptions of culture. And the last variable we used as a control was the managerial status. Being a manager or not might also influence the perception of the cultural differences.

### **The study focusing on identification**

#### **Dependent variable**

The second phenomenon that we analyzed was identification with the new, merged organization. We measured this by using the first five items from Mael and Ashforth's (1992) 6-item organizational identification scale (cf. Mael, 1989), presented below. These items were rated on a 1 (completely disagree) to 5 (completely agree) Likert-type scale for both KLM and the Air France – KLM combination. Unidimensionality was checked by doing an exploratory factor analysis. All items loaded on a single factor. Scale

reliability was checked by means of Cronbach's alpha. The scale reliability of .82 is excellent.

- When someone criticizes -----, it feels like a personal insult
- I am very interested in what others think about -----
- When I talk about -----, I usually say "we" rather than "they"
- When someone praises -----, it feels like a personal compliment
- ----- successes are my successes

### **Independent variables**

For the explanation of this dependent variable we also distinguished several independent variables. The first independent variable in our analysis was **social competition**. Our survey contained three items that measured competitive behavior (the first two inversely, the third directly):

- q46: If the cooperation with Air France has an influence on my work, I will do my best to succeed (R)
- q47: I am open to cooperate with my colleagues from Air France when necessary (R)
- q48: I'm not willing to put myself out just to help the Air France-KLM combination

It appeared that items 46 and 47 significantly and positively correlated, and both correlated negatively with item 48, but less strongly. The three items were inspected for unidimensionality (items 46 and 47 recoded to express lack of cooperation) by means of a factor analysis, and all three variables loaded on a single factor. Whereas unidimensionality was ascertained in this way, a scale consisting of these three items had a low alpha reliability of only .62; while a scale consisting only of items 46 and 47 displayed a much higher alpha reliability of .74. Therefore we made a decision to

continue with a scale of social competition, **social competition**, formed by these two variables only.

The second independent variable we constructed was **social mobility**. Actual mobility across the boundaries of the two merging firms was minimal as was related by senior management at the beginning of our study, and as we also learned during the interviews. Moreover, being a respondent in the KLM sample means that an individual has not yet practiced any mobility yet (at least not from the acquired to the acquiring firm, the kind of mobility we were interested in). We therefore did not seek to measure actual mobility, but rather the perception of boundary permeability, or the perceived effects of the merger on job opportunities. We used the following questions:

- q44: The Air France – KLM combination offers me the opportunity for further development in my job
- q57: The Air France – KLM combination offers me an opportunity to fulfill my aspirations

The two items were strongly correlated ( $r = .732$ ). We therefore used these two items as a proxy for social mobility. Unidimensionality was ascertained by means of a factor analysis, and the two items could be combined in a scale with high alpha reliability ( $\alpha = .85$ ). Hence we constructed a scale social mobility, consisting of these two variables.

The third independent variable we observed was **social creativity**. This could not be measured by means of a questionnaire because the dimensions selected or created for social comparison can differ for each case. Consequently we used open interviews to gauge social creativity in the responses of employees. Interview respondents were asked to look at a picture printed (printed in the discussion of the approach followed in the interviews), and were asked which picture was the most representative in their experience and perception, (1) for the whole airline and (2) for their own department.

We assumed that social creativity was at work whenever the interviewee indicated that the situation regarding the relationship between KLM and Air France was more favorable

for his or her own department, than in the merger as a whole. For instance, the interviewee might indicate that whereas Air France dominated at the level of the merger as a whole, in dealing with his or her corresponding department at Air France relationships were on an equal footing.

The advantage of this line of questioning was that this would not lead the respondents to a particular dimension of social comparison. Instead our goal was that it would help the interviewee to reflect on the issue of intergroup relations in the merger. We assume that the described discrepancies between the relationship at the level of the merger and the relationship at the level of the department are signs of social creativity, i.e., the interviewee “invents” a dimension on which his or her own department can relatively favorably compare with Air France. However, we should acknowledge that in some cases such a discrepancy can actually be an adequate description of the situation.

### **Control variables**

For control variables we considered the same factors already described above as possibly influencing identification with the new organization. Hence we looked at departmental affiliation, managerial status, amount of working years, gender and rounds of the study.

After having operationalized the concepts mentioned above into measurable variables we conducted several tests which will be elaborated upon in the following section.

## **3.8 Discriminant validity and common method bias**

If both the dependent and the independent variables in a study have been measured with the same instrument, the results are vulnerable to common method bias (Podsakoff, MacKenzie, Lee & Podsakoff, 2003), although this concern may not as serious as previously assumed (Doty & Glick, 2009). In this study the problem of common method bias is believed to have played only a minor role, even though most of the data have been collected with a single questionnaire.

In the analyses with Perceived Cultural Differences as the dependent variable, most of the independent variables have been measured with the same instrument, but these tended to be non-perceptual, hence leaving less opportunity for bias. This is true for the independent and control variables Department Membership, number of Years worked for KLM, Gender, and Managerial status. All these variables are based on simple factual questions. One additional variable, Interaction Intensity, reflects our assessment of the level of interaction intensity between KLM and Air France at the departmental level, and is based on other data than the survey, as explained in Chapter Four. The final independent variable, National Differences, is based on the indices of national cultures composed by Hofstede (1980).

Hence, there is no reason to heed for common-method bias in the analyses with Perceived Cultural Differences as the dependent variable, but there may be some concerns in the case of the second dependent variable, Identification with Air France-KLM. As related above, this variable is based on five items in the questionnaire. Two of the independent variables, Social Competition and Social Mobility, are also entirely questionnaire-based (the third independent variable, Social Creativity, was interview-based as explained above). Therefore we focused our efforts on an analysis of discriminant validity and presence of common method bias on the constructs of Identification with Air France-KLM, Social Competition, and Social Mobility.

We used confirmatory factor analysis to evaluate discriminant validity of the dependent variable Identification with AF-KLM and the two perceptual independent variables Social Competition and Social Mobility. The confirmatory factor analysis was carried out with the maximum likelihood estimation in LISREL 8.54. Each item was restricted to load on its specified construct, with the three constructs being allowed to correlate freely. All of the items loaded significantly on their latent variable, demonstrating convergent validity (confirming our findings from exploratory factor analyses reported above). We assessed discriminant validity by comparing a model in which the latent variables were allowed to correlate freely with a model in which all latent variables were restricted to correlate perfectly. The difference in chi-square between the two models (2507.29,  $df=1$ )

was highly significant ( $p < .001$ ), demonstrating discriminant validity (Byrne, 1998). As both dependent and independent variables in the study focusing on Identification with AF-KLM were perception-based and measured with the same instrument a pairwise test of the perceptual reflective scales Identification with Air France-KLM, Social Competition, and Social Mobility was performed. For each of the 3 pairs of constructs a model in which the two latent variables were allowed to correlate freely was compared with a model in which the latent variables were restricted to correlate perfectly. In all cases the chi-square statistic of the second model was significantly higher than that of the first model, again demonstrating discriminant validity.

Following Lindell and Whitney (2001), we furthermore checked for common-method bias by introducing a marker variable. A marker variable should be measured by the same instrument as the scales used in the analysis, but should be theoretically unrelated to the variables of interest. We selected Professional Identification as our marker variable, as we did not use this variable in our analyses, there seemed to be no theoretical reason to assume a relationship with any of our variables of interest, and the marker variable was measured with the same instrument as our variables of interest. We checked the partial correlations between Identification with AF-KLM, Social Competition, and Social Mobility, controlling for Professional Identification, and found that all the correlations between the three constructs remained significant. Based on these checks, we conclude that common-method variance does not play a role in our findings.

### **3.9 Concluding remarks**

The above description outlined the methods that have been used for this dissertation. It also tried to achieve to give more insight in the case at hand and the events that led to this merger. The next chapters will elaborate on the results of the research concentrating on the topics organizational culture and identification with the new superordinate firm.



## **Chapter Four: Perceived cultural differences**

### **4.1 Introduction**

Failures of acquisitions and mergers are often ascribed to incompatibility of cultures (Abrahamson & Fombrun, 1994; Cartwright & Cooper, 1993). Consequently, many researchers analyse M&As from a cultural perspective (Larsson & Lubatkin, 2001; Nahavandi & Malekzadeh, 1988; Very, Lubatkin & Calori, 1996; Elsass & Veiga 1994; Weber, Shenkar & Raveh, 1996; Weber, 1996; Cartwright & Cooper, 1993).

The cultural perspective is particularly interesting for this study of the international merger between two airlines, in which cultural differences both at the organizational and at the national level are to be expected. Both airlines are characterized by a strong organizational culture, in the sense that this culture is clearly acknowledged and shared by the vast majority of the employees of the organizations. In KLM it manifests itself in apparent symbols like the particular light blue color of the airplanes, uniforms, and identity cards. These ID cards seem to be very important for the employees because they give them a sense of belonging to the organization. One of the managers of KLM even called them “sacred”. The KLM headquarters building in Amstelveen is evident in its coloring of the furniture and carpeting which is (of course) in the same blue color as the aeroplanes. The corridors in the building are called “wings”, which is meant to make an association with the wings of an aeroplane.

In Chapter Two a number of propositions have been formulated with regard to the effect of a merger on perceived differences in organizational cultures. In this chapter we will analyze our data from KLM and test hypotheses based on these propositions in the context of the Air France-KLM merger. We use data both from the survey and from interviews. These data and the methods of data collection have been described in Chapter Three. We will first briefly revisit the discussion of organizational and national culture, and formulate the hypotheses. Subsequently we will test the hypotheses on our data.

## 4.2 Organizational culture

In this study the cultures of two organizations have been observed during a period of integration after an acquisition. Important questions pertain to how these cultures will change during the integration process. Will the cultures be perceived to become gradually more alike, or will they continue to be recognizably different, even after a number of years? Does the transformation of cultures take place gradually or in clearly visible steps? Do different subcultures (here defined as departments) differ in their perception of the culture changes during the integration process? These questions have been discussed theoretically in Chapter Two, and will be empirically analysed in this chapter.

Organizational culture, as described in Chapter Two, can be seen from two main perspectives. The pragmatic view regards organizational culture as a phenomenon that can be measured, and tends to focus on elements that can be influenced and used by managers. The symbolic or anthropological view, in contrast, defines culture as (the outcome of) an ongoing process of interpretation by employees, through which process cultural phenomena within the organization are given symbolic meanings. Researchers that analysed an organizational culture using the pragmatic approach developed either typologies or dimensions, and using these, were able to distinguish one organizational culture from another.

As discussed in Chapter Three, we chose to combine both perspectives in order to focus on managerially relevant dimensions and gauge the perceptions of employees at the same time. Our measurement instrument allows us to test hypotheses pertaining to the perspectives of the members of the acquired company on both their own organizational culture as well as the culture of the acquiring company. On the basis of these two perceptions, the perceived cultural difference between the own and the other organization can be constructed. Based on the reasoning developed in Chapter Two, we expect perceived differences to decline during the integration process, but not immediately. First the interaction with employees from the other firm will bring to the light differences in ways of working, etc., that were not immediately visible, and thus lead to increased

perceptions of cultural difference, compared to the initial expectations. However, we expect that after an initial increase the perceived cultural differences will subsequently become smaller. The argumentation that underlines this expectation is that when employees gain experience in working together, a mutual adaption process will start that will lead to a different perception of the culture of the other company, meaning that by adjusting to the other company the differences will gradually seem to become smaller. This leads us to the following hypothesis:

*Hypothesis 1: The perceived cultural differences between the firms involved in a merger will in the post-merger period first increase, and then decrease.*

### **4.3 Organizational subcultures**

In most if not all of the larger organizations it will be possible to distinguish subcultures. As described in Chapter Two subcultures represent culturally meaningful organizational units, and a researcher can decide a priori what is to be considered a meaningful unit. A subculture can be seen as a separate culture, meaning that the individuals in their coping with experiences engage in sense-making and act in terms of meanings (Gregory, 1983) separately from the other subcultures. Subcultures can result in serious conflicts because basic assumptions differ (Wilkins, 1983). One can assume that when the general organizational culture is relatively strong it will also be more homogenous across subcultures, and conflicts between the subcultures will be less strong. In this case the chosen meaningful units are departments of KLM, and as argued above KLM can be seen as an organization with a strong culture. The departments that were observed using questionnaires and interviews were: Engineering and maintenance, Check-in, Cabin Crew, Cockpit Crew, Head Office, Cargo and six European establishments outside the Netherlands. Assuming that the employees of the different departments will have different perceptions of both their own cultures and of the merger and the merger process the following hypothesis is formed:

*Hypothesis 2: The perceived cultural differences between the firms involved in a merger will differ between departments.*

It is not reasonable to presuppose that the integration process will develop at the same pace and following the same stages for all departments. It is therefore assumed that in this company the integration process will be in different stages in different departments. We assume that because different departments are involved in the integration process in different ways the intensity of interaction with the other company will also differ between departments, and these differences will influence the perceptions of cultural differences. The expectation is that the intensity of the interaction process in the post-merger integration with the other company will change the perceptions of both the other company's culture and the own culture. We expect that the departments that have more interaction with the other company will early in the integration process perceive larger differences sooner than the departments that have less interaction, but over time this perception will change and perceived differences will become smaller. We expect that perceptions of employees in the departments with less interaction will not change a lot during the integration process until the period that there will be more interaction. Accordingly the following hypothesis has been formed:

*Hypothesis 3: In high interaction groups the perceived cultural differences will first increase and later decrease; in low interaction groups the perceived cultural differences will not change.*

This hypothesis is a refinement of Hypothesis 1, which predicted a general pattern of change over time.

## 4.4 National culture

Organizational culture is substantially influenced by the culture of the environment, in particular the national culture (Hofstede, 2001). In Chapter Two the relationship between culture at the level of the organization and at the societal level has been discussed, and the conclusion was that this relationship is not as clear as it appears to be at first sight. It would seem evident that the culture of the environment of the organization, or the national culture, is more deeply rooted in the awareness and perception of humans than organizational culture, and therefore exerting a stronger effect on behavior.

From the point of view of Hofstede, who refers to culture as “the collective programming of the mind which distinguishes the members of one human group from another” (Hofstede, 1994: 5), this would indeed seem to be obvious. If this is the case substantial differences between the national cultures of firms engaged in a merger or acquisition could be a cause of conflicts. These differences can pertain to either behaviour or perception or both. Our research focuses on the perceptions of the employees, and thus on the perceived differences between the cultures of the two merging firms as perceived by the employees themselves. However, given the reasoning above, it is likely that the perceived differences in organizational cultures are also influenced by differences in national cultures. Since we have employees from various nationalities in our sample, we can analyze this effect.

The establishments outside the Netherlands form an interesting representation of several nationalities, as the custom of the KLM is to hire local residents for most of the functions at the outside establishments except for the general manager and for some other higher management functions. Also within the Netherlands we find employees from a number of different countries. On the basis of the discussion above, it can be expected that employees that have a different nationality than that of the home countries of both the acquiring and acquired company (i.e., not Dutch and not French), may have different perceptions of both the organizational cultures of the two companies, and of the cultural distance between these two. The assumption in this case is that non-Dutch employees already adapted to the organizational culture of KLM will (because of the links between

national and organizational culture) perceive the cultural difference between KLM and AF to be smaller if their own national culture is more similar to the national culture of AF. This results in the following hypothesis:

*Hypothesis 4: If the distance between the national culture of an acquired-firm employee and the home country culture of the acquiring firm is smaller, the perceived differences between the two organizational cultures will also be smaller.*

## **4.5 Empirical analysis**

The questionnaire survey described in Chapter Three mostly served as our reference to test our hypotheses 1 through 4. For the 4<sup>th</sup> hypothesis we also used a measure of national cultural distance, using the formula of Kogut and Singh (1988) and the data from Hofstede (2001). The results of the interviews were used to illustrate some of the findings, thereby strengthening the confidence that the conclusions are robust.

### **Dependent variable**

We measured the perceived cultural differences by calculating the absolute difference between the perceptions of a respondent's "own" organizational culture and his or her perception of the "other" organizational culture. This was measured with the sum of the absolute differences on 17 items regarding organizational culture. These 17 items have been described in more detail in Chapter Three. The items were rated on a 1 (completely disagree) to 5 (completely agree) Likert-type scale, for both KLM and AF.

At the end of the chapter we will also look at the perceived differences on each of the 17 items measuring organizational culture perceptions, in order to see what the most important perceived differences are.

### **Independent variables**

The independent variables in our analyses were:

#### **The rounds**

The study included six rounds of measurement. The first round took place in September 2004 till December 2004, the second round was conducted from April 2005 till June 2005, the third round took place in November 2005 until January 2006, the fourth round occurred in May 2006 until June 2006, the fifth round was conducted in November 2006 until December 2006 and the sixth round took place in December 2007 until January 2008. Looking at the development over these six rounds allows us to gauge developments over time. For some of our analyses this is a main focus of interest, for other analyses it is important to control for possible shifts over time by including dummy variables for the rounds.

#### **Departments**

The groups distinguished in the study were chosen from existing departments of KLM: Engineering and Maintenance, Check-in, Pilots, Cabin Crew, Headquarters, Cargo and establishments outside the Netherlands.

#### **Interaction intensity**

Interaction intensity, the extent to which employees of a given department of the acquired firm are involved in intensive interactions with employees from the acquiring firm, was construed by categorizing the departments into a high interaction and a low interaction group. This was done on the basis of discussions with KLM managers and analysis of the interviews. The low-interaction group consisted of departments that had hardly any communication with either the headquarters of AF or any of the other departments of AF. The first department that was included in this group was Cabin Crew. Employees from this department had little interaction with other departments (other than the Cockpit Crew) or with the headquarters of KLM. When commenting on KLM headquarters, cabin crew members often described this as being more business-like than before, this indicates a feeling of distance. This distance was even further to AF because there was no contact

with employees of this company during the observation period. During our study the uniforms of the two companies remained different, as the identities of the two brands were purposefully kept separate. This may also have led to a feeling of distance towards the acquiring firm. Contacts with AF crews occur occasionally (e.g., at airports or in hotels), but are not stimulated in any way, and are not explicitly work-related.

The second group that was included in the low-interaction group was the Cockpit Crew. For this group the same observations as for the Cabin Crew can be made. KLM Cockpit Crew had no interaction with AF employees in general or AF Cockpit Crew, except for a very small group that flew together on a French Airbus (this was meant as an experimental exchange program and training). The few pilots that had a part-time managerial job at KLM also had hardly any contact with AF during our study period.

The third department that was included in the low-interaction group was Engineering and Maintenance. During the 6 rounds of our study their contact was minimal, some exchange groups did exist but the number of people that participated was very small and the amount of time that was spent together with the AF engineering and maintenance group (AF Industries) was also very limited. The policy of the merging firms during the years of our study was to concentrate activities in both hubs on the basis of expertise with reference to the different types of aeroplanes (in particular Boeing and Airbus).

The last department that was included in the low-interaction group was Ground Personnel and Check-in Personnel. This group consisted of all personnel in service jobs working on the ground at Schiphol. During our study their jobs went on as usual with the only difference that they also handled the check-in passengers for AF but this was not experienced as a noticeable difference. Overall the KLM group of Ground Personnel and Check-in had no contact during the 6 rounds of our study with either the AF headquarters or the AF ground personnel.

The high-interaction group was formed of departments that had much interaction with their Air France counterparts. The first group that we place in this category consists of all the departments of the headquarter office included in our study. These groups interacted extensively with AF, and the intensity of interactions also tended to increase during our study. This interaction consisted of daily or almost daily e-mail and phone contacts, as



well as visits, the frequency of which varied from once a month to one or more visits a week. The HQ departments that we focused on were Pricing and Revenue Management, Network, Information Services, Corporate Communication, Corporate Control, and HRM.

The second department that we included in our high-interaction group was Cargo. This department was not included in the first round of our study, but several employees of KLM convinced us of the importance of this department because this department integrated stronger and quicker than the rest of the companies. And the top of the Cargo business, consisting of both AF and KLM managers, worked together as a group in the Joint Cargo House. The general manager was the former head of KLM Cargo. During the five rounds of observation of this joint group we noticed an extremely high interaction between AF and KLM employees, consisting of at least weekly visits and phone and e-mail contacts on average twice or more daily. On top of that there was more than one combined group meeting each month.

The last category that we put in the high-interaction group was formed by the employees from establishments outside the Netherlands. We included in our study six such establishments: London, Frankfurt, Milano, Stockholm, Zurich and Madrid. All these establishments evolved to complete or nearly-complete integration during the six rounds of our study. During the first few rounds this meant that initially two IT systems were used next to each other, while in the later rounds the AF systems gradually took the lead. It also meant that AF employees and KLM employees were gradually located in one building. In this group of six establishments we observed during our visits the process of integration through initial apprehension and misunderstandings towards increasing mutual understanding.

### **National cultural distance**

The national cultural distance variable was obtained by creating groups of employees with a different nationality than either Dutch or French, working for KLM in the Netherlands as well as in the establishments. For these groups of employees the national cultural distance to the French national culture was calculated using Kogut and Singh's (1988) formula.

Kogut and Singh (1988) used Hofstede's indices to compose an index of national cultural distance, based on the differences on each of the four cultural dimensions (power distance, uncertainty avoidance, masculinity/femininity and individualism) of a particular country (often the USA) to another country:

$$CD_j = \sum_{i=1}^4 \left\{ (I_{ij} - I_{iu})^2 / V_i \right\} / 4$$

$CD_j$ : Is the cultural distance for the  $j$ th country from the focal country (e.g., United States)

$I_{ij}$  stands for the index of the  $i$ th cultural dimension and the  $j$ th country

$V_i$  is the variance of the index of the  $i$ th dimension

$u$  indicates the focal country

Using a measure of national cultural distance based on this formula avoids the problem of retrospective rationalization because the national culture scores are derived from a source outside the sample (Morosini, Shane & Singh, 1998).

## 4.6 Methods

For testing the different hypotheses, the following methods of analysis have been employed.

For **hypothesis 1**, we conducted an independent T-test to compare the scores on the perceived cultural difference of the successive rounds of data collection. Every round was compared with one of the other rounds with respect to their scores on the variable perceived cultural difference, pooling the data from all departments.

Furthermore we used a linear regression to test for the independent variables (rounds) and control variables. Perceptions of cultural differences may be influenced by factors at the

level of individual employees, such as managerial rank, number of years worked for KLM, and gender. Therefore we controlled for these factors in our multivariate analysis.

For **hypothesis 2** we conducted two one-way ANOVA tests to analyse the differences between departments. First we analysed the differences between the departments in the Netherlands only. The assumption of homogeneity was violated (Levene's test .011) suggesting that the variance in scores was not the same for each group. This was solved by using t-tests as a more global measure.

The second one-way ANOVA test was used to compare the differences in perception of the employees from the six establishments outside the Netherlands. The assumption of homogeneity was not violated (Levene's test = .476). For comparisons of both ANOVA tests we used the Tukey HSD test. Finally a T-test was done to compare the differences in perception between the departments in the Netherlands and the establishments abroad.

For **hypothesis 3** we observed the influence of the intensity of interaction between departments of KLM and AF. In order to do so we divided the departments in two groups: one with departments with a relatively intensive interaction with AF, the other with departments that interacted only very little with AF. This information was obtained during the interviews with the employees and meetings with the general managers in the respective departments, as described above.

We then conducted a one-way ANOVA test to compare the differences of perceptions of the high-interaction group between the six rounds, which was followed by a one way ANOVA test for the low-interaction group. (Levene's test of homogeneity was not violated in both tests) Furthermore we used a T-test to compare the differences between the high and the low interaction groups in every round.

For **hypothesis 4** we selected several nationalities with a relatively high frequency in our data. This group was formed from the employees that worked at KLM in Holland as well as at the establishments outside the Netherlands. Samples with a frequency above 10 were chosen for comparison, which resulted in the following list of nationalities, with their cultural distance (  $CD_j$ ) score in comparison with France.

### Cultural distance towards France:

CD Sweden and France is:	$3,14 + 0 + 4,95 + 6,49 = 14,59 : 4 = \mathbf{3,65}$
CD Spain and France is:	$0,28 + 0,74 + 0,003 + 0 = 1,02 : 4 = \mathbf{0,25}$
CD Italy and France is:	$0,74 + 0,05 + 2,50 + 0,24 = 3,53 : 4 = \mathbf{0,88}$
CD U.K. and France is:	$2,50 + 0,60 + 1,81 + 5,20 = 10,11 : 4 = \mathbf{2,53}$
CD Swiss and France is:	$3,66 + 0,02 + 2,50 + 1,57 = 7,75 : 4 = \mathbf{1,94}$
CD Germany and France is:	$2,50 + 0,03 + 1,81 + 0,88 = 5,22 : 4 = \mathbf{1,30}$
CD Norway and France is:	$3,15 + 0,007 + 4,20 + 2,59 = 9,95 : 4 = \mathbf{2,49}$
CD Belgium and France is:	$0,02 + 0,03 + 0,41 + 0,13 = 0,59 : 4 = \mathbf{0,15}$

We used these measurements to create two groups, one with large cultural distance to France and one with a small cultural distance to France. We used the median score as a difference index between the two groups and therefore allocated every nationality with a  $CD_j$  score above and equal to 1,94 to the large-distance group, and the others to the small-distance group, and conducted a t-test to compare the groups.

## 4.7 Findings

### Perceived cultural differences over time

Our findings with regard to hypothesis 1 are shown in Table 4.1 and 4.2.

Table 4.1 shows the results of the T-tests comparing the six rounds in our study. The results indicate that there was indeed an increase from round 1 to round 2 but not significant. After round 2 the perceived differences gradually decreased, resulting in a significant difference between round 2 and 6 and round 3 and 6. The results show that the hypothesized transformation of the perception of cultural differences did occur: an increase from round 1 to round 2, and subsequent decreases from round 2 through 6. The increase from round 1 to round 2 was too small to be statistically significant, as was the subsequent decrease from round to round. But looking at the decrease over a number of rounds (2 to 6 or 3 to 6) we do find a significant change.

**Table 4.1:** Results of T-test comparing rounds

<b>Rounds</b>	<b>M</b>	<b>SD</b>	<b>N</b>	<b>Round 1</b>	<b>Round 2</b>	<b>Round 3</b>	<b>Round 4</b>	<b>Round 5</b>
<b>1</b>	14.44	6.95	263					
<b>2</b>	15.11	6.66	448	-1.26				
<b>3</b>	14.98	7.15	506	-1.02	.28			
<b>4</b>	14.62	7.04	486	-.34	1.09	.80		
<b>5</b>	14.33	7.66	344	-.19	1.50	1.25	.56	
<b>6</b>	13.54	7.21	402	1.6	3.27***	3.00***	2.24	1.43

Test variable is perceived cultural differences

T-values are shown

\* p<.05

\*\* p<.01

\*\*\* p<.001

Table 4.2 shows us the results of the regression analysis. Model 1, with only the control variables, explains only a very small portion of the variance (R-square is .020). In Model 2 the hypothesized variables (rounds 2 through 6, round 1 being the reference) are added. Not unexpectedly (given the results of the T-Tests described above) the coefficients for the individual rounds failed to reach significance.

**Table 4.2:** Results of multiple regression analysis for control variables

	Model 1	Model 2
<b>Controls</b>		
Work-years	.069**	.072**
Gender	-.048	-.046
Managerial position	.090***	.093***
<b>Hypothesized Variables</b>		
Round 2		.023
Round 3		.030
Round 4		.000
Round 5		-.015
Round 6		-.059†
R-squared	.020	.026
Adjusted R-squared	.019	.023
Model F	15.737***	7.703***
F-change		2.844*

Dependent variable is perceived cultural differences

Standardized coefficients are shown

† p<.10

\* p<.05

\*\* p<.01

\*\*\* p<.001

From the above results we can conclude that our data suggest that the expected tendency of perceptions of cultural differences to increase initially, and then gradually decrease over time, does indeed exist in the merger studied. However, although the changes

between perceived cultural difference at its maximum (rounds 2 and 3) and minimum (round 6) are significant, the shifts from round to round are too small to be significant. Hence we cannot confirm Hypothesis 1. Pooling all departments together, perceptions of cultural differences cannot be said to increase initially, to decrease later. We will now turn to an analysis of the differences between the various departments.

### **Perceived cultural differences across departments**

As described above, for testing Hypothesis 2 (perceptions of cultural differences differ between the departments) we performed one-way ANOVA tests. This resulted in significant differences between the departments ( $F(5,1866) = 12.2$ ;  $p = .000$ ). The assumption of homogeneity was violated (Levene's test .011), suggesting that the variance in scores was not the same for each group. We therefore repeated the test with independent T-tests and compared each test with the Levene's tests results, if Levene's tests resulted in a value above .05 we described the T-test value with equal variances assumed and if the Levene's tests resulted in a value equal or below .05 we described the t-value with equal variances not assumed. Our findings with regard to hypothesis 2 are shown in Table 4.3, Table 4.4 and Table 4.5.

Table 4.3(1) and 4.3(2) show the comparisons of the cultural differences between KLM and AF, as perceived in the departments in the Netherlands. The results show a clear difference between Cabin Crew and most of the other departments. Also between the remaining departments there are several significant differences.

**Table 4.3 (1):** Descriptive statistics and differences in perceived cultural differences between KLM and AF, departments in the Netherlands using ANOVA

Variables	Mean	SD	N	1	2	3	4	5
1. Engineering and Maintenance	14.50	6.86	368					
2. Ground personnel	13.19	7.38	171	1.31				
3. Cabin	11.93	5.80	207	2.57***	1.26			
4. Cockpit	13.53	6.95	243	.97	-.34	-1.59		
5. Cargo	15.87	7.24	185	-1.37	-2.69**	-3.94***	-2.35**	
6. Head Office	15.42	6.72	698	-.92	-2.23**	-3.49***	-1.89**	.45
7. Total	14.45	6.90	1872					

Dependent variable is perceived cultural differences

Cells: Mean difference between the departments

\* p<.05

\*\* p<.01

\*\*\* p<.001

**Table 4.3 (2):** Descriptive statistics and differences in perceived cultural differences between KLM and AF, departments in the Netherlands using an independent T-test

Variables	Mean	SD	N	1	2	3	4	5
1. Engineering and Maintenance	14.50	6.86	368					
2. Ground personnel	13.19	7.38	171	2.02*				
3. Cabin	11.93	5.80	207	4.77***	-1.81			
4. Cockpit	13.53	6.95	243	1.71	-.48	-2.66**		
5. Cargo	15.87	7.24	185	-2.18*	-3.47**	-5.91***	-3.40**	
6. Head Office	15.42	6.72	698	-2.11*	-3.61***	-6.76***	-3.75***	.80
7. Total	14.45	6.90	1872					

Dependent variable is perceived cultural differences

T-values are shown

\* p<.05

\*\* p<.01

\*\*\* p<.001



Levene's test was under the value .05 when comparing Cabin with Engineering and Maintenance, Ground personnel, Cockpit crew and Cargo. The test was also under the value of .05 when comparing Ground personnel with Headquarters.

We also conducted a one way ANOVA test to compare the differences in perceived cultural differences between the six establishments outside the Netherlands. This test also resulted in a significant difference between the establishments ( $F(5,472) = 2.8$ ;  $p = .018$ ). The assumption of homogeneity was not violated (Levene's test .476). For comparisons of both ANOVA tests we used the Tukey HSD test. Table 4.4 shows us the results of this analysis.

The only establishment that differed significantly was Milano, in the sense that the employees perceived the differences between AF and KLM as significantly smaller than the employees of establishments in London and Stockholm did.

**Table 4.4:** Descriptive statistics and multiple comparisons between the establishments

Variables	Mean	SD	N	1	2	3	4	5
1. London	16.30	9.11	74					
2. Frankfurt	15.42	6.77	68	.88				
3. Madrid	14.52	5.99	36	1.78	.90			
4. Stockholm	16.12	7.74	97	.18	-.70	-1.60		
5. Zurich	15.86	7.07	43	.44	-.44	-1.34	.26	
6. Milano	13.23	7.58	160	3.07*	2.19	1.30	2.89*	-2.63
7. Total	14.94	7.68	478					

Dependent variable is perceived cultural differences

Cells: Mean difference between the departments

\*  $p < .05$

\*\*  $p < .01$

\*\*\*  $p < .001$

Finally, we compared the departments in the Netherlands with the establishments abroad. This test did not show a significant difference between the two groups. The departments in the Netherlands showed a mean difference of 14.44 ( $SD = 6.90$ ), and the

establishments a slightly higher mean difference of 14.94 ( $SD = 7.68$ ). The magnitude of the difference in means, however, was insignificant.

**Table 4.5:** Results of t-test comparing the residences

<b>Residence of</b>				
<b>Employees</b>	<b>M</b>	<b>SD</b>	<b>N</b>	<b>T-value</b>
Netherlands	14.44	6.90	1877	
				-1.30
Establishments	14.94	7.68	478	
Test variable is perceived cultural differences				
*	p<.05			
**	p<.01			
***	p<.001			

From the above results we can conclude that the second hypothesis can be confirmed in the sense that some departments differ significantly from others with regard to the perceptions of cultural difference between the merger partners. The foreign establishments did not differ significantly as a group from the departments in the Netherlands taken together as a group, but did show a significant differences within the group. We will now turn to an analysis of the changes in perceived cultural difference over time for different groups of departments.

### **Changes in cultural differences perceptions over time and across groups of departments**

Our findings with regard to hypothesis 3 are shown in Table 4.6, Table 4.7, Table 4.8 and Figure 4.1.

Table 4.6 shows the perceived cultural difference from round to round for the high-interaction departments. The results show that there was indeed a rise in the perception of

differences and in later rounds overall a fall in perception of differences but the differences between the rounds were not significant ( $F(5,1312) = 1.20; p = .31$ ).

**Table 4.6:** Descriptive statistics and multiple comparisons between the rounds of the high interaction group

Variables	Mean	SD	N	Round 1	Round 2	Round 3	Round 4	Round 5
Round 1	15.19	5.93	153					
Round 2	16.15	6.99	202	-.96				
Round 3	15.20	6.83	259	-.01	.95			
Round 4	15.25	6.94	287	-.06	.90	-.05		
Round 5	15.57	7.96	216	-.37	.58	-.37	-.31	
Round 6	14.49	7.39	201	.70	1.66	.71	.76	1.08
Total	15.31	7.07	1318					

Dependent variable is perceived cultural differences

Cells: Mean difference between the rounds

\*  $p < .05$

\*\*  $p < .01$

\*\*\*  $p < .001$

Table 4.7 shows the perceived cultural differences from round to round for the low interaction group. Here, too, we see initially an increase of the perceived cultural differences, and later a decrease. However, here the difference between the highest point (Round 3) and the lowest point (Round 5) is significant ( $F(5,1049) = 3.01; p = .011$ ).

**Table 4.7:** Descriptive statistics and multiple comparisons between the rounds of the low interaction group

Variables	Mean	SD	N	MD Round 1	MD Round 2	MD Round 3	MD Round 4	MD Round 5
Round 1	12.74	7.33	94					
Round 2	14.14	6.22	227	-1.40				
Round 3	14.49	7.30	238	-1.76	-.35			
Round 4	13.68	7.28	188	-.94	.46	.81		
Round 5	12.14	6.62	117	.59	1.99	2.35*	1.54	
Round 6	12.70	6.92	191	.03	1.43	1.79	.98	-.56
Total	13.53	6.97	1055					

Dependent variable is perceived cultural differences

MD = Mean Difference

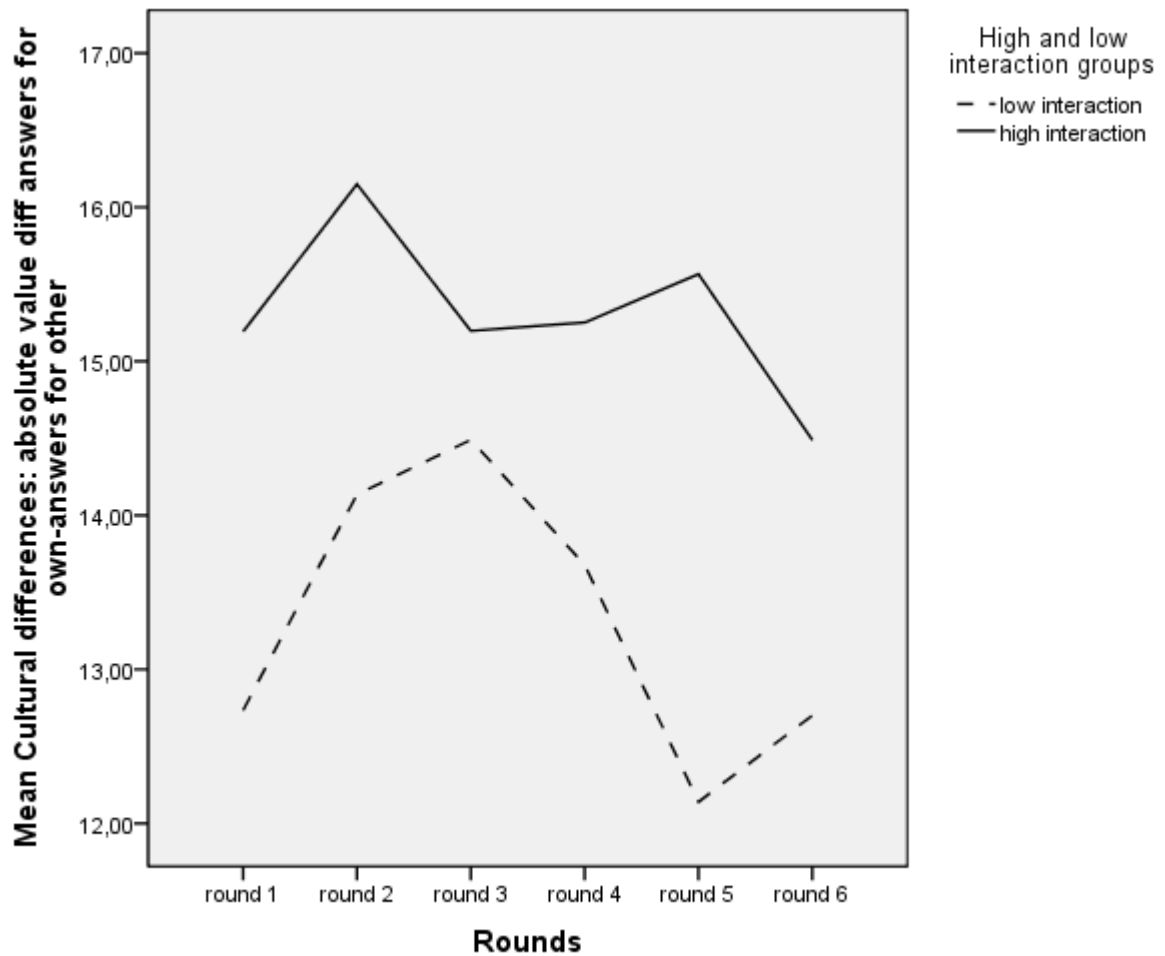
\* p<.05

\*\* p<.01

\*\*\* p<.001

The Graph below shows the differences between the groups during the 6 rounds.

**Figure 4.1:** Line Chart of the high and low interaction groups



The above results show the differences between the two groups and their different development over the period of the study. It becomes clear that the development predicted for the high-interaction group is actually more visible for the low-interaction group, and furthermore that the high-interaction group perceived larger cultural differences. To be able to indicate the differences between the groups a T-test was conducted; Table 4.8 shows the results. Significant differences between the two groups were found in all rounds except round 3. The high-interaction group perceived the cultural differences to be significantly larger than the low-interaction group, during almost every round.

**Table 4.8:** Results of t-test comparing high and low interaction groups

<b>Rounds</b>	<b>M</b>	<b>SD</b>	<b>N</b>	<b>T – value</b>
<b>1</b> high	15.19	5.93	153	
low	12.74	7.33	94	-2.89**
<b>2</b> high	16.15	6.99	202	
low	14.14	6.22	227	-3.16**
<b>3</b> high	15.20	6.83	259	
low	14.49	7.30	238	-1.12
<b>4</b> high	15.25	6.94	287	
low	13.67	7.28	188	-2.37*
<b>5</b> high	15.57	7.96	216	
low	12.14	6.62	117	-3.97***
<b>6</b> high	14.49	7.39	201	
low	12.70	6.92	191	-2.47*

Test variable is perceived cultural differences

\* p<.05

\*\* p<.01

\*\*\* p<.001

Looking at the results from the ANOVA tests and the T-test, as well as the chart, we can conclude that during the integration period differences in perception do indeed occur. We can also conclude that there is a significant difference between the high and low-interaction groups but the differences are opposite to what we hypothesized. The low-interaction group, for which we expected no clear pattern of changes in perceived cultural differences, manifested increasing perceived differences in the first rounds and decreasing perceived differences in the later rounds. In contrast the high-interaction group did not show a significant development in its perceived differences over the time of our study.

Furthermore the overall differences between the groups were high and consistent. The high-interaction group perceived the differences between the firms as constantly larger than the low-interaction group. We will return to these findings in the Conclusion section.

The perception of the cultural differences might also be influenced by the nationalities of the respondents, in the sense that employees with a national culture more equal to the nationality of the home country of the acquiring firm would perceive smaller differences between the cultures of the two firms. In the next section we will test this hypothesis.

### **The influence of national cultural distance on perceived organizational cultural differences**

Table 4.9 shows our findings with regard to Hypothesis 4. We formed a high and low national cultural distance group using the formula of Kogut and Singh, as explained in the methods section, and predicted that the group with the smaller national cultural distance would perceive smaller differences between the organizational cultures of KLM and AF.

**Table 4.9:** Results of t-test comparing high and low national cultural distance groups

High and low cultural distance groups	M	SD	N	T-value
Low distance	13.97	7.49	181	-3.14**
High distance	16.34	8.21	259	
Test variable is perceived cultural differences				
*	p<.05			
**	p<.01			
***	p<.001			

The result shows a clear difference, hence the fourth hypothesis can be confirmed, meaning that if the national cultural distance of an employee towards the home country culture of the acquiring firm is smaller, the perceived cultural differences between the acquiring and acquired organization will also be smaller.

## 4.8 Analysis with respect to the separate questions on cultural differences

In order to get a more detailed perspective on the perceptions of the employees we also analyzed the questions measuring the perceived organizational cultures separately. All seventeen questions differed significantly with regard to perceptions of the “own” culture and the “other” culture. We then selected the questions with the highest difference (in mean scores) between KLM and AF for further inspection, and observed the development during the study period by means of a T-test (for a discussion of the various items, see Chapter Three).

**Table 4.10:** Results of t-test comparing rounds: “employees responsible for results”

<b>Rounds</b>	<b>M</b>	<b>SD</b>	<b>N</b>	<b>Round 1</b>	<b>Round 2</b>	<b>Round 3</b>	<b>Round 4</b>	<b>Round 5</b>
<b>1</b>	-.52	.93	263					
<b>2</b>	-.40	1.01	448	-1.60				
<b>3</b>	-.59	.92	506	.95	3.02**			
<b>4</b>	-.56	.93	486	.51	2.50*	-.52		
<b>5</b>	-.52	.91	344	.39	2.18*	-.59	-.11	
<b>6</b>	-.52	.90	402	-.04	1.80	-1.14	-.63	-.49

Test variable is perceived cultural differences

T-values are shown

\* p<.05

\*\* p<.01

\*\*\* p<.001

Apparently the perception differed only in the second round compared to the other rounds. In this round the KLM employees perceived the difference between their own firm and AF in the extent to which employees are held responsible for the results of their work to be smaller than in the other rounds. However, overall in every round the KLM employees were convinced that they are more held responsible for their work than their AF colleagues.



**Table 4.11:** Results of t-test comparing rounds: “coordination more important than hierarchy”

<b>Rounds</b>	<b>M</b>	<b>SD</b>	<b>N</b>	<b>Round 1</b>	<b>Round 2</b>	<b>Round 3</b>	<b>Round 4</b>	<b>Round 5</b>
<b>1</b>	-1.14	1.20	263					
<b>2</b>	-1.06	1.27	448	-.76				
<b>3</b>	-1.16	1.23	506	.30	1.26			
<b>4</b>	-1.14	1.24	486	.07	.98	-.27		
<b>5</b>	-1.24	1.23	344	1.09	2.03*	.93	1.17	
<b>6</b>	-1.12	1.23	402	-.16	.67	-.54	-.27	-.38

Test variable is perceived cultural differences

T-values are shown

\* p<.05

\*\* p<.01

\*\*\* p<.001

With respect to this question the employees were persistent in their views that the hierarchy in the AF company was more salient.

**Table 4.12:** Results of t-test comparing rounds: “taking initiative is NOT encouraged”

<b>Rounds</b>	<b>M</b>	<b>SD</b>	<b>N</b>	<b>Round 1</b>	<b>Round 2</b>	<b>Round 3</b>	<b>Round 4</b>	<b>Round 5</b>
<b>1</b>	.46	1.22	263					
<b>2</b>	.44	1.30	448	.18				
<b>3</b>	.48	1.37	506	-.27	-.51			
<b>4</b>	.68	1.31	486	-2.25*	-2.79**	-2.29*		
<b>5</b>	.67	1.31	344	-2.00*	-2.43	-1.95	.12	
<b>6</b>	.48	1.33	402	-.27	-.51	-.02	2.17*	1.87

Test variable is perceived cultural differences

T-values are shown

\* p<.05

\*\* p<.01

\*\*\* p<.001

Round 4 differs significantly in the sense that the perception of the difference was larger than in the other rounds. Overall the perception was that taking initiative is more appreciated at KLM than at AF.

**Table 4.13:** Results of t-test comparing rounds: “controlling costs is more important than identifying new opportunities”

<b>Rounds</b>	<b>M</b>	<b>SD</b>	<b>N</b>	<b>Round 1</b>	<b>Round 2</b>	<b>Round 3</b>	<b>Round 4</b>	<b>Round 5</b>
<b>1</b>	-.73	1.18	263					
<b>2</b>	-.68	1.25	448	-.51				
<b>3</b>	-.45	1.37	506	-2.94**	-2.70**			
<b>4</b>	-.42	1.40	486	-3.17**	-2.96**	-.31		
<b>5</b>	-.27	1.24	344	-4.28***	-4.35***	-1.87	-1.55	
<b>6</b>	-.46	1.33	402	-4.74***	-4.78***	-2.06*	-1.71	.02

Test variable is perceived cultural differences

T-values are shown

\* p<.05

\*\* p<.01

\*\*\* p<.001

The KLM employees perceived in all the rounds themselves as more driven by controlling costs but during the first rounds they estimated the difference between KLM and AF considerably higher.

**Table 4.14:** Results of t-test comparing rounds: “often discussions”

<b>Rounds</b>	<b>M</b>	<b>SD</b>	<b>N</b>	<b>Round 1</b>	<b>Round 2</b>	<b>Round 3</b>	<b>Round 4</b>	<b>Round 5</b>
<b>1</b>	-1.19	1.27	263					
<b>2</b>	-.96	1.42	448	-2.14*				
<b>3</b>	-1.07	1.27	506	-1.21	1.26			
<b>4</b>	-.98	1.44	486	-1.98*	.19	-1.07		
<b>5</b>	-.99	1.50	344	-1.71	.33	-.77	.16	
<b>6</b>	-.82	1.35	402	-3.46**	-1.42	-2.79**	-1.62	-1.62

Test variable is perceived cultural differences

T-values are shown

\* p<.05

\*\* p<.01

\*\*\* p<.001

At KLM the employees see themselves as more prone to discussions than their colleagues at AF, but in the last round the perceived difference between the two companies became significantly smaller.

**Table 4.15:** Results of t-test comparing rounds: “convincing everyone before the final decision is made”

<b>Rounds</b>	<b>M</b>	<b>SD</b>	<b>N</b>	<b>Round 1</b>	<b>Round 2</b>	<b>Round 3</b>	<b>Round 4</b>	<b>Round 5</b>
<b>1</b>	-.64	1.20	263					
<b>2</b>	-.31	1.32	448	-3.23**				
<b>3</b>	-.47	1.23	506	-1.76	1.91			
<b>4</b>	-.38	1.22	486	-2.74**	.80	-1.17		
<b>5</b>	-.34	1.33	344	-2.80**	.30	-1.46	-.43	
<b>6</b>	-.39	1.26	402	-2.53	.82	-1.02	.08	.47

Test variable is perceived cultural differences

T-values are shown

\* p<.05

\*\* p<.01

\*\*\* p<.001

During the 6 rounds the KLM employees perceived the necessity of convincing everyone prior to the final decision as more applicable to KLM than to AF, however the difference between KLM and AF was perceived significantly higher in the first round than in the later rounds.

## 4.9 Conclusions

To observe the influence of an M&A on the organizational cultures of the two merging firms we focused on the perceptions of the employees of the acquired organization. We hypothesized changes in perception during the integration period. These changes did occur, in the sense that the perceived differences between the two organizations first increased and then decreased. However, the shifts from round to round were too small to be significant. This result could be ascribed to the fact that the two organizations largely continued to operate independently (with the exception of the establishments abroad), and most employees remained at a relatively large geographical distance from their colleagues in the other organization. Evidently this will reduce interactions, resulting in a slower change of perceptions of cultural differences.

Furthermore we predicted that the perceptions of cultural differences would differ across the departments of the acquired organization. We did in fact observe several significant

differences between departments, in particular the department Cabin Crew differed significantly from most of the other departments: they saw smaller differences between the cultures of KLM and Air France than their colleagues at other departments. But there were many significant differences between the other departments as well. It is interesting to note that the three departments where employees wear uniforms (Cabin Crew, Cockpit Crew, and Ground Personnel and Check-in) see the smallest cultural differences. At the same time these categories of personnel have very few interactions with their counterparts of Air France. An explanation could be that they identify strongly with their profession (of which the uniform is a symbol), and hence assume that their AF counterparts are not very different from themselves. As they have little interaction with AF colleagues, there is no opportunity for them to verify this assumption. We will return to the interpretation of our findings in Chapter Six.

With regard to the establishments outside Holland a significant difference was found between the Milano outpost and the offices in Stockholm and London, in the sense that the Milano employees perceived a smaller difference between the cultures of AF and KLM. This finding could possibly be ascribed to the smaller national cultural distance to the acquiring firm.

To test the hypothesis that national cultural distance to the acquiring firm could have an influence on the perception of the differences of the cultures we compared two groups using the Kogut and Singh formula of cultural distance to distinguish between employees from countries with a large national cultural distance to France and employees from countries with a small cultural distance to France. The group with a national culture that is more similar to that of the home country of the acquiring firm, perceived the differences in organizational culture between their own acquired firm and the acquiring firm also to be smaller.

To analyze the influence of the intensity of interaction between employees from the acquired and the acquiring firm we compared a high-interaction group with a low-interaction group. However, we found a difference that is opposite of what we hypothesized. The low-interaction group showed the pattern of changes in perceived cultural difference over time, first increase, and subsequently decrease, that was predicted for the high-interaction group. Furthermore the perceived differences were consistently

higher for the high-interaction group. This could mean that the high-interaction group started with a more realistic perception of the differences and consequently did not have to change as much as would be expected. Although the first round of our study did start early in merger it is possible that employees from high-interaction groups had already acquired significant experiences with the acquiring firm.

We can conclude that changes in perception did occur and the perceived differences became gradually smaller but the link with the intensity of interaction with the acquiring firm was different than hypothesized. We will return to the interpretation of our findings in Chapter Six.

## **Chapter Five: Social identity and identification with the merged firm**

### **5.1 Introduction**

As discussed in Chapter Two, the social identity perspective focuses on the identity of individuals derived from their membership of a group. Studying this social identity and the work-related behavior that is connected to it will give us a better understanding of the responses of employees to the merger studied in this dissertation.

In this study of two merging airlines, the identity process is particularly interesting because airlines tend to operate in an extremely visible manner, and therefore the employees of the organizations are frequently confronted with their work-identity, even outside their work environment. Vaara, Kleymann & Seristö (2004: 11) argue in this respect that airlines can be linked with “nationalism” as an ideology because airlines are “strongly associated with the national heritage of the country and served as national flag carriers”. Intuitively this suggests that an airline will be a stronger source of social identity than most other companies. And the results of our study will indeed show that in this case the identification with the company is strong.

Building on social identity theory we develop hypotheses based on the general propositions derived in Chapter Two. Data from the survey and interviews, discussed in Chapter Three, were analyzed to test these hypotheses. We will first briefly highlight the aspects of social identity theory most pertinent to this study, and formulate hypotheses. These hypotheses are subsequently tested using data from the merger we studied.

### **5.2 Social identity theory**

The main assumption of the social identity theory is that people tend to think of themselves in terms of their membership of a group. This means that individuals define

themselves and are also defined by others as members of a group (Tajfel & Turner, 1986). There is a growing interest in this theory in the context of work relations, which can be explained by developments in the workplace. It has become more difficult to define and assess individual work performance and therefore motivational processes towards a more collective achievement goal have emerged. This shift and the consequences that it may have for more personal goals is an interesting subject for research from a social-identity perspective (Ellemers, De Gilder & Haslam, 2004).

The perception of social categories and the assigning of prototypical characteristics to those categories is a social process. These characteristics are abstracted from the members of the categories and function as a cognitive segmentation and ordering of the social environment. This enables an individual to locate himself in his social environment. It will ultimately lead to oneness with or belongingness to a social category, thereby perceiving the fate of the group as one's own (Ashforth & Mael, 1989).

The group that a person belongs to is perceived as the in-group and a comparative other group is perceived as the out-group. The perception of the out-group depends on the belief system. If one believes in social mobility (a general assumption that the society is flexible and boundaries between groups are permeable) one's behavior will tend to be more uniform to that of the relevant out-group members, while if one assumes that the society is markedly stratified and thus that moving between groups is difficult or impossible, one tends to treat the members of the out-group stereotypically (Tajfel & Turner, 1986). This has been discussed in more detail in Chapter Two.

Research of Ellemers, Wilke & Van Knippenberg (1993) and Haslam (2001) has focused on the influence of perceiving oneself as being in a position of higher or lower status relative to a salient out-group. According to the social identity theory belonging to a high-status group is desirable because it enhances one's self-image. Empirical investigations have shown in this respect that members of a high-status group identify more with their group than members of a low-status group (Ellemers et al., 1993). Most of the studies in the field of social identity theory have been laboratory experiments (see, e.g., Ellemers et al., 1993; Hornsey & Hogg, 2002; Haslam, 2001). In these studies several different reactions to a perceived inferior situation from members of the lower

status group have been found. In this study some of these reactions are explored in a realistic, non-experimental setting.

This study explores the behavior of the employees of KLM, which is an organization that has been acquired by another firm.

The assumption in this dissertation is that the members of the acquired firm perceive themselves as the lower status group. Several studies have taken the social identity theory as the basis of their argument and expanded the in- and out-group perspective into a study of the dominant and dominated organization. The assumption in these studies was that the employees of a premerger lower-status company will continue to see themselves as belonging to a lower status group (Amiot, Terry & Callan, 2007; Giessner, Tendayi Viki, Otten, Terry & Täuber, 2006; Van Knippenberg, Van Knippenberg, Monden & de Lima, 2002; Terry, Carey & Callan, 2001), and belonging to an acquired and previously lower status firm, as in our case, is an even more clear case (Dackert, Jackson, Brenner & Johansson, 2003). This means that two processes can influence the perceptions of relative status of firms involved in an M&A. The first one is the perception of being a smaller “player” in the market before the merger took place. The KLM employees did have this notion as is illustrated with some interview fragments from the first round:

**Table 5.1:** Illustrations of “being a smaller player in the market”

1. “They are larger than we are”
2. “Within the Netherlands we can say “We are KLM” and they can say “We are AF” in France but they can also say “We are AF” outside France and we cannot do that because we are so small”
3. “I think they have more power, what they can do. They’re bigger of course”
4. “AF is “the big boy” and KLM is “the little boy”
5. “They can do more in the same amount of time. They not only have more people but they also have more means”



The second process that influences the perception of being an employee of the lower status firm is the distinction between acquiring and acquired firm, which can also be illustrated with some interview fragments from the first round:

**Table 5.2:** Illustrations of “being the acquired company”

1. “It is not “working together”, we have been bought”
2. “Sometimes you have the feeling that you are fighting with “the big mother”
3. “I do feel that we are “the smaller part” in maintenance, so we will have to wait and see how the work will be divided in the future”
4. “Because AF is so big, and when two companies merge it always causes fright for the staff”
5. “We are in a merger, meaning the player that sets all the rules is AF”

Prior research, discussed in Chapter Two, has indicated that the perception of being a member of the lower status group may lead to different reactions. When people belong to a low-status group they develop one of the following three strategies to improve their social identity:

- By engaging in **individual mobility**. This means that they will disengage from their group and seek membership of the higher status group.
- By developing **social creativity**, This is a response consisting in making intergroup comparisons on dimensions different from those that determine the status.
- By engaging in **social competition**, meaning that they try to reverse the status ranking (Tajfel & Turner, 1986; Haslam, 2001; Asforth & Mael, 1989).

These possible reactions form the basis of hypotheses to be tested with data from the questionnaires and interviews of our study. More specifically, we will investigate the effect of these three strategies on the identification with the superordinate entity, Air France – KLM.

### **5.3 Identification with the superordinate entity and social competition**

As discussed in Chapter Two, our interest in social identity in the context of the Air France – KLM combination lies in the expected effects on identification with the postmerger entity. Organizational identification has been demonstrated to have positive effects on a multitude of organizational outcomes (Ashforth & Mael, 1989; Dutton, Dukerich & Harquail, 1994; Haslam, 2004; Haslam, Postmes & Ellemers, 2003; Elsbach, 1999; Bartels, Douwes, De Jong & Pruyn, 2006). However, a merger or acquisition can threaten employees' identification with the (pre-merger) organization, and consequently loyalty, commitment, satisfaction with the merger and willingness to cooperate in the M&A may suffer (Ullrich & Van Dick, 2007; Fischer, Greitemeyer, Omay & Frey 2007). The tendency of group members to engage in negative in-group – out-group behavior has often been a basis for research. Why do people want to believe that their own group achieves higher goals than other groups? Why do members want to believe that the knowledge within their group is more substantial than that in other groups? Research indicates that some of the answers can be sought in the perception of the status of the group (Tajfel & Turner, 1986; Hornsey & Hogg 2002; Amiot et al., 2007; Hornsey & Hogg 2000; Giessner et al., 2006; Fischer et al. 2007). If members perceive themselves as being in a lower-status group they will try to upgrade their group as a whole. One of the means to achieve this is to compete with the other group.

In this case study of the acquisition of KLM the assumption is that the acquired firm members will perceive themselves as being members of a lower status group. We build on the theory that a negative or lower status social identity (Tajfel & Turner, 1986; Ouwerkerk, de Gilder & de Vries, 2000) will promote action to enhance the position of the group. If however this behavior takes the form of social competition, it is likely to have detrimental effects on the identification with the superordinate identity (Gaertner, Dovidio & Bachman, 1996; Ashforth, Harrison & Corley, 2008). This leads us to the following hypothesis.

*Hypothesis 1: When the employees of the lower status firm engage more in social competition behaviour, they will identify less with the new, superordinate organization.*

## **5.4 Identification with the superordinate entity and social mobility**

The premise that social mobility is possible influences the perception of the members of a lower status group. If employees assume that the boundaries between their “old” organization and the new organization are flexible and permeable, this will lead to less stereotypical perceptions of the other group, and smaller perceived differences between the groups.

In this study of the acquisition of an airline, we draw on the social identity theory which results in stating with respect to social mobility that perceiving the boundaries between the “old” firm and the merger partner as more permeable will lead to a higher identification with the new, combined organization. If employees of the acquired firm perceive a move to the (higher status) acquiring firm to be possible, this will also enable them to identify more strongly with the new entity that encompasses both firms. This argument, discussed in greater detail in Chapter Two, leads to the following hypothesis:

*Hypothesis 2: When employees of the lower status firm see more opportunities for social mobility in the new firm they will identify more with the new, superordinate organization.*

## **5.5 Identification with the superordinate entity and creative rationalization**

When members of a lower status group believe that the group boundaries are impermeable they might resort to social creativity. Social creativity was discussed in

Chapter Two as a response through which members of a low status group regain a positive image by emphasizing those dimensions on which their in-group positively distinguishes itself from the out-group. There are different forms of social creativity: (a) looking for a new dimension on which to compare the out-group with the in-group; (b) changing the values that are attributed to certain characteristics of the other group; (c) comparing the in-group with totally different groups than the out-group (Haslam, 2001). Social creativity responses are difficult to gauge empirically, as the dimensions selected or created for social comparison can differ from case to case.

In this study of KLM employees social creativity was explored by comparing respondents' status ordering at the level of the two merging companies with status orderings at the level of the department in which the respondent works. The idea is that if a respondent presents a more positive status ordering for the own department than for the merging firms as a whole, it would be a sign of social creativity. It is difficult to deny that KLM is the smaller firm, or that it is acquired by Air France, however the status ordering at the level of the two companies as a whole may still vary between respondents. For instance, some employees may more strongly believe the rhetorics of fairness and equality employed by top management in the context of the combination. This in itself cannot be taken as a sign of social creativity. However, if a respondent admits superior status of Air France at the level of the combination, but denies this at the level of his or her own department, we will take this as an indication that social creativity is at work. Apparently, when comparing his or her own department with that in Air France such a respondent employs different dimensions, changes the values that are attributed to certain dimensions, or refers to a different reference group in order to upgrade the status of the own department.

As with the other social identity responses, we are interested in the relationship between social creativity and the extent to which an employee identifies with the new, merged organization. Social creativity, in contrast to social competition, does not lead to a denial of the differences. It merely leads to a shift of the focus. Social creativity enables the employee to see the groups as different, but without feeling inferior. This concept is in theory described as in-group favoritism meaning a bias in perception in favor of the in-

group (Terry et al., 2001). Therefore we expect that this will make it more difficult for the respondent to identify with the new organization, leading to the following hypothesis:

*Hypothesis 3: When the employees of the lower status firm engage in social creativity to compare themselves relatively favorably with the “other” firm they will identify less with the new, superordinate organization.*

## 5.6 Empirical analysis

The data used for our analyses in this chapter stem from the questionnaire survey and the interviews described in Chapter Three, therefore in this section the construction of variables for the testing of hypotheses 1 through 3 will be briefly discussed.

### **Dependent variable**

We measured identification with the new, merged firm using the first five items from Mael and Ashforth's (1992) 6-item organizational identification scale (cf. Mael, 1989). These items were rated on a 1 (completely disagree) to 5 (completely agree) Likert-type scale.

### **Independent variables**

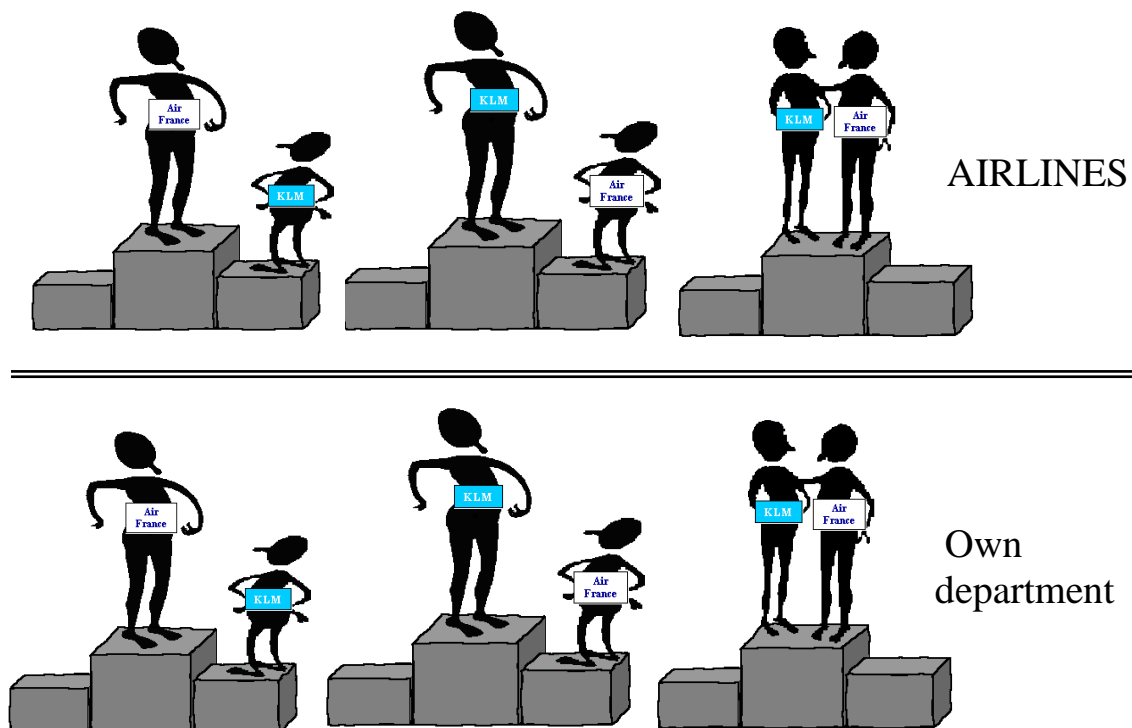
The independent variables in our analysis are social competition, social mobility and social creativity. Our survey contained three items measuring **competitive behavior** (the first two inversely, the third directly). As is explained in chapter three we decided to continue with the scale of **social competition** formed by two variables.

The second independent variable of interest here is **social mobility**. Actual mobility across the boundaries of the two merging firms is minimal, and as we surveyed employees of KLM, the fact that they were in our sample indicated that they had not displayed social mobility. Hence, direct measurement of social mobility is difficult, and

probably also pointless, because of the very low incidence. However, our questionnaire did contain two items measuring individual perceptions of boundary permeability or at least the perceived effect of the merger on job opportunities (see chapter three).

The third independent variable, **social creativity**, for the reasons discussed above, could not be measured by means of a questionnaire. Instead we used open interviews to elicit social creativity in the responses of employees. Interview respondents were asked to look at a picture with two rows of each three cartoons, and decide which cartoon in each row was most representative for the relationship between (a) KLM and Air France, and (b) their own department and their counterpart department at Air France (see Figure 5.1). The rationale behind using these pictures was that these would not lead the respondents to a particular dimension of social comparison. It would only prompt the interviewee to reflect on the issue of intergroup relations in the merger, based on which he or she could freely build his or her own train of thoughts.

**Figure 5.1**



We coded the answers as 1 = AF is dominant, 2 = both are equal and 3 = KLM is dominant. Several respondents used an in-between answer and those we labeled as 2,5 or 1,5. (1,5 means the respondent combines in one row the pictures indicating that AF is dominant with the picture indicating equality; 2,5 means a combination of KLM is dominant and equality). Social creativity was measured by subtracting the score for the airlines row from the result on the row for the own department. Using this line of reasoning a positive figure would mean social creativity: although Air France as a whole is seen as dominant, this is less the case for the respondent's own department, suggesting that different (creative) dimensions are used for this comparison. To gauge the relationship between social creativity, thus measured, and identification with the new, merged firm, we had to combine these data with the survey data.

### **Control variables**

Identification with the new combination may also be influenced by other factors than social competition, social mobility (and social creativity). Therefore we introduced several control variables in our analysis. First of all, identification may be influenced by occupation. Therefore we constructed indicator variables for 6 occupational categories (staff at headquarters being the reference group). Another factor of influence may be managerial status. Managers may identify stronger with the newly formed group than personnel with no managerial status. We constructed an indicator variable with the value 1 if the respondent was a manager (at any hierarchical level), and 0 otherwise. We furthermore controlled for the number of years respondent had worked for the company, gender, and the timing of the questionnaire (round 2, 3, 4 or 5 (round 1 being the reference group)). Table 5.1 shows descriptive statistics and correlations for the variables used in our analysis for testing hypotheses 1 and 2.

**Table 5.3(1):** Descriptive statistics and correlations (N = 2449)

Variables	Mean	SD	1	2	3	4	5	6	7	8
1. Identification with the group	3.15	.82	1.000							
2. Round 2	.36	.77	-.014	1.000						
3. Round 3	.61	1.21	.000	-.241***	1.000					
4. Round 4	.79	1.60	.018	-.235***	-.254***	1.000				
5. Round 5	.70	1.74	.025	-.191***	-.206***	-.201***	1.000			
6. Round 6	.98	2.22	.017	-.210***	-.226***	-.221***	-.179***	1.000		
7. Work-years	13.02	9.32	.039*	-.003	-.066**	.019	.032†	.002	1.000	
8. Gender	.38	.48	-.071***	-.013	.019	-.004	-.044*	.041*	-.269***	1.000
9. Managerial position	.35	.48	.092***	.011	.001	.006	.012	.045*	.132***	-.181***
10. Outposts	.17	.37	.151***	.055**	-.008	-.005	-.015	-.013	-.200***	.187***
11. Ground personnel	.07	.25	-.114***	.020	-.021	-.072***	-.092***	-.147***	-.117***	.274***
12. Cargo	.10	.30	.100***	-.154***	.080***	.071***	.058**	.034*	.104***	.005
13. Engineering and maintenance	.15	.36	-.007	.040*	-.011	.026	-.032†	-.066**	.246***	-.244***
14. Cabin Crew	.09	.29	-.086***	.021	.025	-.035*	-.034*	.016	-.210***	-.113
15. Cockpit Crew	.12	.32	-.021	.034*	.043**	.010	.027†	.006	-.058**	-.254***
16. Social Competition	1.73	.66	-.315***	.036*	-.012	-.023	-.003	.029†	.071***	.099***
17. Social Mobility	3.06	1.02	.363***	-.077***	.056*	.012	.025	-.004	-.060**	-.099***

† p<.10  
 \* p<.05  
 \*\* p<.01  
 \*\*\* p<.001



**Table 5.3(2):** Descriptive statistics and correlations (N = 2449)

Variables	Mean	SD	9	10	11	12	13	14	15	16
1. Identification with the group	3.15	.82								
2. Round 2	.36	.77								
3. Round 3	.61	1.21								
4. Round 4	.79	1.60								
5. Round 5	.70	1.74								
6. Round 6	.98	2.22								
7. Work-years	13.02	9.32								
8. Gender	.38	.48								
9. Managerial position	.35	.48	1.000							
10. Outposts	.17	.37	-.039*	1.000						
11. Ground personnel	.07	.25	-.012	-.123***	1.000					
12. Cargo	.10	.30	.027†	-.149***	-.091***	1.000				
13. Engineering and maintenance	.15	.36	.031†	-.189***	-.115***	-.140***	1.000			
14. Cabin Crew	.09	.29	-.127***	-.145***	-.088***	-.107***	-.136***	1.000		
15. Cockpit Crew	.12	.32	.226***	-.159***	-.099***	-.120***	-.152***	-.117***	1.000	
16. Social Competition	1.73	.66	-.081***	-.081***	.124***	-.088***	-.035*	.259***	.045*	1.000
17. Social Mobility	3.06	1.02	.086***	.021	-.120***	.126***	-.034*	-.119***	-.047*	-.371***

† p&lt;.10

\* p&lt;.05

\*\* p&lt;.01

\*\*\* p&lt;.001

## **5.7 Methods and findings (1): Social competition and social mobility**

We used linear regression to test our first two hypotheses. In the first step we entered only the control variables. The results of the regression analysis show that the control variables explain only a small proportion of the variance (R-square is .041) (see Table 5.2). The membership of a particular occupational group has a strong effect on identification with the combination. Ground personnel at Schiphol expressed relatively low levels of identification with the merged firm, and personnel at outstations and Cargo relatively strong identification. Also managerial status and the number of year's respondents have worked for the (old) company affects the identification with the merged firm both positively. The coefficient of the gender variable has a negative sign, indicating that female respondents express lower identification with the combination than their male colleagues. The indicators for the various rounds of data collection show no significant coefficients, suggesting that there are little or no shifts in identification with the combination over time.

**Table 5.4:** Results of multiple regression analysis for control variables 6 rounds

	Model 1	Model 2	Model 3	Model 4
<b>Controls</b>				
Round 2	.006	.003	-.012	-.006
Round 3	.051	.056†	.025	.031
Round 4	.017	.024	.002	.007
Round 5	.047	.059*	.034	.041
Round 6	.057†	.068*	.042	.049†
Work-years	.008	.016	.049*	.045*
Gender	-.019	-.025	.002	-.006
Managerial position	.076***	.056**	.049*	.041*
Outposts	.127***	.136***	.147***	.145***
Ground personnel	-.076**	-.026	-.028	-.006
Cargo	.024	.014	.006	.004
Engineering and maintenance	-.021	.013	.003	.003
Cabin Crew	-.013	.064**	.033	.076**
Cockpit Crew	-.080**	.052*	-.040†	-.028
<b>Hypothesized Variables</b>				
Social competition		-.262***		-.184***
Social mobility			.285***	.224***
N	2287	2280	2256	2256
R-squared	.041	.104	.117	.144
Adjusted R-squared	.035	.098	.111	.137
Model F	6.862***	17.542***	19.741***	23.463***

Dependent variable is identification with AF/KLM

Standardized coefficients are shown

† p&lt;.10

\* p&lt;.05

\*\* p&lt;.01

\*\*\* p&lt;.001

In the second model the variable **social competition** was entered, reflecting the effect of social competition. As predicted, this variable has a significant negative effect on identification with the combination. The increase in the F-statistic from model 1 to model 2 is highly significant. In model 3 we entered the variable for **social mobility**. As hypothesized, social mobility has a significant positive effect on identification with the superordinate entity. The explained variance again increases strongly, reflected in a highly significant increase in the F-statistic. In the final step (model 4), we entered the **social competition** and **social mobility** variables simultaneously. This variable shows the hypothesized positive effect on identification with the combination. Inspection of tolerance and VIF statistics shows that multicollinearity is no issue in this analysis.

## 5.8 Methods and findings (2): Social creativity

For the testing of hypothesis 3 we combined data from the survey (identification with the group) with data from the interviews (social creativity).

Looking first at our social creativity data, we have responses from 246 respondents. In 128 cases Air France is seen as dominant at the level of the airlines, but this is true only in 35 cases if we look at the own department. This is a clear indication that social creativity is being practiced. The question is, however, whether social creativity is related to identification with the post-merger organization.

In a first analysis, we related the average level of social creativity in a department (interview data) with the average level of identification with the Air France – KLM group (survey data). At this level of analysis we can distinguish between only 17 departments. Hence we have 17 cases. The comparison was made by means of a correlation using Spearman Rank Order as a non-parametric alternative to Pearson Product Moment correlation because of the small sample size, and because a normal distribution of the variables could not be assumed. The Spearman rho correlation coefficient between average social creativity and average identification with the group is negative but insignificant ( $\rho = -.303$ ,  $p = .237$ )

Although the above results show no relationship between creativity and identification there was a significant difference in means between the several departments regarding to their social creativity responses  $F(16,228)=2.95$   $p=.000$  (see Table 5.3).

**Table 5.5:** Means of social creativity responses

	N	Mean	Std, Deviation
Cargo	21	.9524	.7567
HQ information Services	14	.9286	.6157
Cabin Crew	18	.9167	.7326
HQ Pricing and Revenue	10	.9000	.3944
Stockholm	19	.8684	.7235
Zurich	13	.8077	.7228
Ground Services	18	.7222	.9271
Cockpit Crew	13	.6923	.6934
London	13	.6538	.5158
HQ HRM	11	.4091	.5839
Engineering & Maintenance	28	.3036	.8426
Frankfurt	10	.3000	.7149
HQ Network	10	.3000	.5869
Madrid	11	.2727	.7863
HQ Corporate Control	13	.2629	.8321
Milano	13	.2308	.6650
HQ Communication	10	-.3000	1.0594
Total	245	.5778	.7906

From the above results one can conclude that the establishment Stockholm most clearly favors its own department and that only the department Communication at the headquarters of KLM sees Air France as being more in the lead with regard to their own function, than in the merger as a whole. The department Cargo also has a strikingly high result indicating a more dominant perception of KLM. Cargo as well as Stockholm are departments in which an ex-KLM manager is in charge. Zurich is a KLM department and functions as a subsidiary of Geneva. Therefore the perception

of dominance might represent more a realistic event than a creative solution to the feeling of inferiority. Cabin Crew, Information services and Pricing and Revenue also perceive their department as more dominant than KLM in the merger as a whole. For Cabin Crew this could be due to the fact that this department has hardly been influenced by the merger with AF, and for Information Services it could be because this department is a relatively more separate department in the sense that outsourcing was a common practice in this department which might have resulted in a different kind of identity, probably a more professional identity. The relatively high mean of Pricing and Revenue can not be explained as easily. It could be influenced by a more competitive attitude of the relatively young and highly educated employees. Conversely, the outpost Madrid and the corporate communication department may be realistic in perceiving Air France to be more dominant in their realm than in the merger as a whole. In Madrid an ex-Air France manager is in the lead, while the corporate communication function at KLM has been downgraded in particular with regard to the external and financial communication.

These observations suggest that at least in some cases the actual dominance of the firm in a certain region or department was measured by our operationalization for social creativity, while in other departments the perception of dominance (influenced by social creativity) was measured.

Taken all together our analyses show that the expected negative relationship does seem to exist but is not significant. However, we should not have too much confidence in the measure developed to capture social creativity. We will return to these points in the next section.

## 5.9 Conclusions

We hypothesized effects on the identification with the merged firm of three types of social identity responses to a merger: social competition, social mobility, and social creativity, and tested these hypotheses on data from the Air France-KLM merger. In this section we will discuss our findings, and where possible illustrate these with interview fragments.

Both social competition and social mobility were found to have the hypothesized effect on identification with the merger. In the case of social competition this effect is negative, in the case of social mobility positive. This is not so difficult to understand, as the two strategies seem to be opposites. The social competition strategy emphasizes the identity of the “old” group, that is perceived to be competing with the new, ostensibly higher-status group. The social mobility strategy implies the willingness to give up the “old” identity if the higher status group can be joined, “if you can’t beat them, join them”.

A few interview fragments can illustrate the above findings; perceived career options and competition related to expressions of identification. They are displayed in the overview table of the next page.

**Table 5.6:** Illustrations of career options, competition and identification

	Respondent A	Respondent B	Respondent C
<b>Career options</b>	<p>“No I still think it’s uncertain. I have become more suspicious than last year. I observe a slow integration of all kinds of things and I see a large difference in culture between the French and the Dutch. I cannot make a clear estimation as to what this means for the division of jobs”.</p>	<p>“Yes I absolutely see opportunities, precisely because it’s not a thick management layer. Climbing up the ladder means that it becomes thinner and thinner. But now it is a totally new game!”</p>	<p>“No I don’t see opportunities. The advantage of a merger is that you need less overhead and I am in a management level. So I think I will have more competition.”</p>
<b>Competition</b>	<p>“We have daily flights to Tokyo. It took us 25 years to obtain these rights. Getting these rights isn’t something that the French understand very well. They have a much larger country. They have Paris. They can ask things and we cannot offer things.”(Note the “we” and “they” utterances of this respondent)</p>		
<b>Identification</b>	<p>“No I am still not an AF-KLMer although it is changing a bit”</p>	<p>“No I don’t have a “blue feeling” or anything. There are people with feelings like that but it is a dying breed.”</p>	<p>“I am very proud of KLM. I always doubted if I had the “blue feeling” but after 9 years maybe I have. I have more kindred feelings with KLM than with AF at this moment.”</p>



The findings with regard to the social creativity strategy are broadly in conformity with our hypothesis, but not significant. The (weak) negative relationship between social creativity and identification with the group suggests a certain extent of in-group favoritism (Terry et al., 2001).

Some illustrative quotes from respondents with regard to creativity related to their expressions of identification are illustrated in the overview table below.

**Table 5.7:** Social creativity and identification

	Respondent D	Respondent E	Respondent F
<b><i>Creativity</i></b>	<p>"If you look at how controllers function at KLM....they (the controllers of KLM) are much more supportive than accountants. A managing director would much sooner accept a controller here as a business partner who really participates in the thinking process and within AF a controller is doing more clerical work and accounting records. They (meaning AF) can learn a lot from us and they do acknowledge that.....</p> <p>My observation is that a controller receives less acknowledgment at AF.....</p> <p>We (controllers of KLM) want to know where it goes wrong so that we can correct it in time. We are more business analysts."</p>	<p>".....This refers to the fact that we have a revenue system that is acknowledged all over the world as one of the most advanced revenue management systems for airline businesses, so that helps and it is also reasonable to establish the fact that we have certain elements in our revenue management system that they (AF) are not able to handle yet."</p>	<p>"The only difference that I see (between AF and KLM) and that is also by experience in communicating with AF, is that we in the area of IT support in salary administration are really running a few years ahead of AF."</p>
<b><i>Identification</i></b>	<p>"I feel myself better at KLM (than at AF). It is not such a "calculating culture". I would estimate KLM as better than AF..... I feel myself to be more of a KLMer than a controller."</p>	<p>" I feel myself more a KLMer than a mathematician.....Yes I have been proud of KLM all my life."</p>	<p>"Yes I am proud to work at KLM but I don't have a very "blue feeling".....I am proud to be Dutch and to work for a Dutch company that can worldwide be seen as having all the (Dutch) characteristics.....and that is KLM."</p>

## 5.10 Concluding remarks

The negative relationship between social creativity and identification with the superordinate identity makes sense, for if one truly believes one's department to be superior to that of the merger partner in some dimension (less relevant than the most obvious dimension), this can cause a disidentification with the superordinate group, which could in a worse case scenario result in a complete cognitive separation from it (Elsbach & Bhattacharya, 2001). According to Van Knippenberg (2000) this lack of identification can have a negative influence on work motivation and task performance, in as far as this is related to the superordinate firm.

However, our operationalization of social creativity may fall short, and that may be the reason why we do not find a statistically significant negative effect. We have mechanically calculated social creativity as the extent to which an interviewee indicated to see less dominance of Air France in his or her own department, than in the merger as a whole. This procedure conflates realistic assessments of relationships within the merger with creative use of dimensions to construct a perception of not being dominated or being of lower status. A better operationalization of social creativity should look at the explanations given for the difference in the perception of relationships at the level of the airline and at the level of the own department. Only if these explanations go against more down-to-earth observations of power relations the conclusion that social creativity is present may be drawn.

Overall, our findings suggest that the manner in which employees respond to a situation in which their group is absorbed by a higher-status group is of utmost importance for identification with the superordinate entity. Together, social competition and social mobility explain a substantial proportion of the variance in identification with the group. At the same time, their effects are opposite. This means that it is important for the management of merging firms to try to steer employees towards social mobility, rather than social competition responses. We will return to this managerial implication in the final chapter of this dissertation.

## **Chapter Six: Conclusions**

### **6.1 Introduction**

In the last decades the ability to acquire internationally has become an imperative skill. This need has also expanded towards the airline industry. Consolidation is necessary and therefore many airline organizations can not avoid being either an acquirer or an acquired company. As mentioned in the first chapter the analysis of this study has concentrated on the integration process of such an acquisition.

In the design of the study on which this dissertation is based a number of choices have been made. Firstly the analysis has been limited to the acquired company. The second choice was that the perceptions of the respondents have been the main object of study. The third characteristic was that the research has been administered over an extensive period of time using several moments in time during that period as point of measurement.

In the next section these characteristics of the research will be discussed. Subsequently the theoretical background will be summarized followed by the results. In the last section of this concluding chapter managerial implications will be formulated and suggestions will be made for future research.

### **6.2 Characteristics of the study**

#### **Focus on the acquired company**

As has been mentioned in Chapter Two, the acquired company is usually assumed to be dominated by the acquirer (Van Knippenberg, Van Knippenberg, Monden & de Lima, 2002; Terry, Carey & Callan, 2001), and although “the merger syndrome” can be ascribed to employees of both companies (Marks & Mirvis, 1997: 22) an M&A often is a more stressful event for employees of the acquired company (Covin, Sighler, Kolenko & Tudor, 1996; Buono & Nurick 1992). When we observe the

identification with the pre-merger firm and compare this with the identification with the super-ordinate firm, observations on the side of the dominated firm often reveal a more painful process (Jetten, O'Brien A., & Trindall, 2002; Terry et al., 2001; Covin et al., 1996).

The perceived loss of autonomy or the uncertainty of the future position of the employee can result in an experience of stress. This may lead to a higher level of dissatisfaction (Covin et al., 1996). It can also be stressful to experience the fear of losing the former culture (Buono, Bowditch & Lewis, 1985; Marks & Mirvis, 2001; Linde & Schalk, 2006; Nahavandi & Malekzadeh, 1988). The dominated firm can fear the arrogance of the dominator (Hogan & Overmeyer-Day, 1994) and the employees can develop several forms of resistance behavior like: defensive retreat resulting in a strategy of noncompliance, aggressive hostility, anxiety, creating rumor mills, low trust in the organization and increased intensity to leave the organization (Marks & Mirvis 2001; Schweiger & DeNisi, 1991).

In summary although both companies can have several similar reactions to the acquisition, the reactions of the employees of the target firm tend to be stronger and therefore the focus of this dissertation was on the acquired firm: the Dutch airline KLM.

### **Perception of the employees as point of reference**

There are several options to measure the changes within an organization during a certain time period. One of them is observing the performance of the company by looking at the financial outputs like return on investment, return on assets, stock price fluctuation or changes in market shares. Another option is to observe and measure more subjective experiences of the employees like job satisfaction, turnover or commitment (Hogan & Overmeyer-Day, 1994) (see Chapter One). The option that was chosen for this dissertation is measuring the perception of the employees.

Measuring perceptions is different from looking at objectively observable phenomena. For instance, the mobility of workers across organizational boundaries as perceived by employees may be different from the actual mobility as reflected in, e.g., the personnel administration. The perceptions of the employees however are likely to

influence their behavior even when they are not in accordance with the facts. As was mentioned in Chapter Three it meant for the researchers to make an a priori choice in our research approach.

### **Longitudinal research**

Most studies on M&A processes tend to either focus on a certain time period (Hubbard & Purcell, 2001; Schraeder, 2001; Covin et al., 1996; Panchal & Cartwright, 2001) or compare time periods (Dackert, Jackson, Brenner & Johansson, 2003; Birkinshaw, Bresman & Håkanson, 2000). Schweiger and Denisi (1991) however stress the importance of the time horizon in research on mergers and acquisitions. A longer period might be necessary in describing and explaining post-merger integration processes, as these usually take a much longer period than half a year or a year.

In this dissertation the focus was on the two phenomena, culture and identification, and we observed their development over time. Hence, as was mentioned in Chapter Three, we followed a longitudinal approach giving us the possibility to gauge changes over time and compare time periods.

## **6.3 Theoretical background**

In this study, an airline company has been observed during an extensive time of the post-merger integration period. For this dissertation two phenomena have been analyzed, culture and identity, from the perspective of the following problem statement:

**How do organizational culture and identity factors influence employee responses in the post-merger integration processes?**

Regarding culture, the organizational cultures of both companies have been the main focus, and in Chapter Four some questions pertaining to how these cultures will change during the integration process have been explored. Will the cultures be perceived to become gradually more alike, or will they continue to be recognizably

different, even after a number of years? Do different subcultures (here defined as departments) differ in their perception of the culture changes during the integration process?

Organizational culture, as described in Chapter Two, has been approached from two main perspectives: the pragmatic view, which regards organizational culture as a phenomenon that can be measured, and the symbolic or anthropological view, which defines culture as (the outcome of) an ongoing process of interpretation by employees, thereby giving meaning to their own perception and their mental representation of the perception of the other employees.

We have chosen to combine both perspectives in order to focus on dimensions that are managerially relevant and to be able to analyze the perceptions of employees at the same time. We formulated hypotheses with regard to the perspectives of the employees on their own organizational culture and the organizational culture of the acquiring firm and mainly looked at the differences between the two. In doing this we focused first on the acquired organization as a whole, and subsequently on the separate departments.

As the merger studied was of an international nature differences between national cultures could not be ignored, and a hypothesis with regard to the influence of differences in national cultures on the perception of organizational cultural differences has been formalized and tested.

The second phenomenon that has been studied was the identification of the employees with the new, super-ordinate entity of the merged firm. The identity process that has been observed in this dissertation is specifically interesting because airlines tend to operate in a very publicly visible manner, as a consequence of which the employees of the organizations are frequently confronted with their work-identity outside their work environment.

Building on social identity theory we formed hypotheses and subsequently data from the survey and interviews, discussed in Chapter Three, were analyzed to test these hypotheses.

The social identity theory, as was explained in Chapter Two, is based on the assumption that people define themselves to some extent in terms of their membership of a group (Tajfel & Turner, 1986). This ultimately leads to oneness with or belongingness to a social category, thereby perceiving the fate of the group as one's own (Ashforth & Mael, 1989). An in-group is the group that a person belongs to and uses as point of reference and a comparative other group is seen as the out-group (Tajfel & Turner, 1986).

Ellemers, Wilke and Van Knippenberg (1993) and Haslam (2001) concentrated on the influence of the status of the in-group and argued that belonging to a high-status group is desirable because it enhances a positive self image. Therefore people tend to identify more with a high-status group than with a low-status group. In several mainly laboratory experiments a number of reactions were found that members of a low-status group exhibited in order to compensate their feeling of inferiority relating to the high-status comparable group. In the reactions of lower-status group members the following strategies to improve social identity can be distinguished (as discussed in Chapter Two):

- They can perceive more **individual mobility** in the new super-ordinate firm, thereby disengaging from their own group.
- By developing **social creativity**, which consists of making different comparisons with the higher status group and thereby enhancing the value of their lower status group.
- By engaging in **social competition**, meaning that they will not accept their current status and engage themselves in proving their worthiness. (Tajfel & Turner, 1986; Haslam, 2001; Ashforth & Mael, 1989).

In this study of the occurrence and effects of these reactions were explored in a realistic, non-experimental setting.

## 6.4 Results and interpretations

To observe the perception of the organizational cultures of the two companies we mainly looked at the perceived differences between the cultures and aimed our research at finding possible changes during the post-merger period. On the basis of the literature on organizational culture issues in postmerger integration we formed the following hypotheses:

*Hypothesis 1: The perceived cultural differences between the firms involved in a merger will in the post-merger period first increase, and then decrease.*

*Hypothesis 2: The perceived cultural differences between the firms involved in a merger will differ between departments.*

*Hypothesis 3: In high-interaction groups the perceived cultural differences will first increase and later decrease; in low-interaction groups the perceived cultural differences will not change.*

The first hypothesis was based on the expectation that changes in perception would occur in the postmerger period. The expectation was that the employees would in the first period under influence of the confrontation with the acquiring firm tend to see larger differences in organizational culture. The first contacts with the acquiring firm are usually frightening and tend to cause an exaggerated perception of differences. Our second expectation was that this would gradually but significantly change during the subsequent years: as experiences with the acquiring firm accumulate perceived differences will become smaller. Our predictions came true: the perceived differences between the two organizations first increased and then decreased, but the shifts from round to round were too small to be statistically significant. These relatively small changes could be the result of the fact that the two companies continued to operate relatively independently; the geographical distance between the head offices may have had an influence on this process as well. It is unavoidable that a larger distance will result in a reduction in the interactions between employees. It is worth noting



however that the perceived cultural differences were at their maximum in rounds two and three and at their minimum in round 6 of our repeated survey.

Our second hypothesis predicted significant differences between the several departments within KLM regarding employee perceptions of cultural differences, and we did in fact observe a number of significant differences between the departments. Cabin Crew, for instance, differed significantly from most of the other departments in the sense that they perceived the differences between the two organizational cultures to be smaller. In fact all the departments where the employees wear uniforms (Cabin Crew, Cockpit Crew, Check-in Staff) perceived the differences between the organizations to be smaller than their non-uniformed colleagues. At the same time this group has hardly any interaction with their counterparts at Air France.

The findings for these three categories of personnel may be due to a feeling of oneness between all the uniformed employees, as the uniform symbolizes being an airline employee, regardless of the color of the uniform. It can also be argued that for these categories of employees the counterpart group formed no threat at all. The Cabin and Cockpit Crew members have the additional experience of working with groups consisting of different individuals on almost every work shift, which may create a feeling of belongingness almost solely based on exterior characteristics like wearing a uniform. This feeling might very well be easily translated to uniforms of other airlines, too.

Apart from the departments of KLM in Holland, the establishments outside Holland showed a significant difference between the Milano outpost and the offices in Stockholm and London. The Milano employees perceived a smaller difference between the cultures of AF and KLM. The smaller national cultural distance between Italy and France could be a factor explaining this difference. The tests of effects of differences in national culture confirmed this argument (see below in the discussion of hypothesis 4).

The third hypothesis predicted an influence on changes in perceptions of the cultural differences of the intensity of interaction between the employees of the acquired firm and their counterparts in the acquiring firm. The findings were remarkably different from what we expected. The low-interaction group for which we expected no changes in perceptions of the differences between the organizations did in fact change their

perceptions significantly. This group revealed the pattern that we predicted for the high-interaction group. The high-interaction group, contrary to our expectations, did not show any significant changes. On top of these findings regarding changes over time the absolute differences between the high and low interaction groups were also consistent, but in a different direction than expected: the high-interaction group perceived the differences between the firms consistently to be larger than the low-interaction group. This could mean that the high-interaction group had already acquired a more realistic perception of the differences between the organizations before the first round of our survey, meaning that no change in their perception was necessary. This explanation was certainly the case for the Cargo department because we only involved them in the second round after several employees advised us to include them because they, of all the departments, were in the most advanced stage of integration.

The above results mean that we can not easily conclude that the process of interaction will result in the end in a diminishing of perceived differences. The differences did become a bit smaller for the employees that interacted strongly with the acquiring firm but not in a substantial manner. This could mean that it takes a longer time to alter perceptions of cultural differences than we anticipated. It could also mean that within the chosen high-interaction group some departments differ from others in their perception as well as in their amount and manner of interaction, with possibly counteracting effects on their perceptions. This doesn't however give enough explanation for the fluctuating perceptions of the employees that had hardly any contact at all with the acquiring organization. This fluctuation could be caused by hearsay. A rumor mill can have a stronger effect apparently than the actual experience with new colleagues. On top of that the actual perceptions of the differences were smaller for this group than the high interaction group and this could be explained by a smaller or lack of experience of stress. This group could have felt less threat of existence or autonomy than the high interaction group.

Taking into account differences in national culture was unavoidable because both companies differed in nationality. It was however not the main topic of research for this thesis. We formed one hypothesis with regard to this subject:

*Hypothesis 4: If the distance between the national culture of an acquired-firm employee and the home country culture of the acquiring firm is smaller, the perceived differences between the two organizational cultures will also be smaller.*

Our expectation was that the national cultural distance between the employees and the acquiring firm would have an influence on perceptions of organizational cultural differences. At KLM several nationalities were represented among the employees in the Netherlands as well as at the establishments outside the Netherlands. Using the Kogut en Singh (1988) formula for cultural distance, we compared two groups and did find a significant difference. The group that had a national culture that was more similar to French culture perceived the differences between the two firms also to be smaller. This finding confirms that national cultural distance and differences in organizational culture are related (Hofstede, 1994).

To observe the identification process of the employees with the new organization we analyzed the responses (mentioned above) that according to the social identity theory are the most likely and translated them to the KLM case. In order to do so we formed three hypotheses:

*Hypothesis 5: When the employees of the lower status firm engage more in social competition behaviour, they will identify less with the new, super-ordinate organization.*

*Hypothesis 6: When employees of the lower status firm see more opportunities for social mobility in the new firm they will identify more with the new, super-ordinate organization.*

*Hypothesis 7: When the employees of the lower status firm engage in social creativity to compare themselves relatively favorably with the “other” firm they will identify less with the new, super-ordinate organization.*

Hypothesis 1 and 2 were confirmed. Social competition had a negative effect on the identification with the new firm and social mobility had a positive effect on identification with the new organization. The effect of social competition provides us with evidence that employees still experienced a feeling of belonging to the old group, resulting in competitive behavior towards the other, higher-status group. So far this reaction has mostly been studied in laboratory settings (Ellemers et al, 1993; Haslam, 2001). Our study shows in an empirical field setting that social competition will impede identification with the new, merged firm.

Seeing new possibilities in the new situation is a form of disengaging from the old firm, and in this empirical field setting we found evidence of this behavior. Experiencing or even expecting the possibility of social mobility in the new firm will lead to more identification with the super-ordinate organization. Again the laboratory findings of Ellemers et al. (1993) and Haslam (2001) were confirmed in our study.

The third hypothesis was not that easily confirmed. In our study there appeared to be no relationship between social creativity and identification. A reason for this lack of findings could be that the measurement of social creativity was inadequate. We hoped to prompt responses by showing a picture and meant in doing so to eliminate the possibility of introducing any bias. Creativity after all should come solely out of the mind of the interviewees themselves. However, we were not able to systematically distinguish between perceptions of status orderings that reflected social creativity, and status orderings that were based on realistic assessments of relative strength, performance, influence, or skills.

In our interviews we did notice several forms of social creativity wherein the respondents in some way upgraded their position by emphasizing their superior ability in particular fields in comparison with their higher-status counterpart departments at AF, but this was not clearly connected significantly to either a stronger or a weaker identification with the super-ordinate firm.

A possible explanation for this result is that the social creativity response can be associated with two opposite effects: it could either help in accepting the other firm (“they are superior but we are also good in some other field”) and thereby causing more identification with the new firm, or contest the overall status ordering (“we are too good to accept their superiority”), which could be an impediment to identification. The laboratory research so far is not clear in this respect either (Tajfel & Turner,

1989; Ellemers et al., 1993; Haslam, 2001). If social creativity responses can be associated with these two opposite effects, it begs the question which factors cause the balance to shift in the direction of more, rather than less identification with the super-ordinate entity.

It seems reasonable to assume that the amount of threat to either the existence of the department or autonomy of the function of the employee will serve as a moderating effect on this process, in the sense that less threat will lead to a creativity expression that will lead to more identification with the super-ordinate firm. For instance the employees of the IT department were threatened by losing jobs or having to give up their own IT systems. Examples of their creativity mostly expressed themselves in promoting the system that was threatened to be eliminated. Another possible moderator could be the trust in the objectives of the superiors: if employees accept the decisions of their superior management they may more easily apply their creativity to a positive direction.

Another question we can ask ourselves is whether our picture clearly enough symbolized status differences. We observed that some respondents did not interpret the pictures to indicate status differences or superiority of one of the firms. They sometimes interpret them as symbolizing differences in size, or being the acquirer versus the acquired firm, i.e., objective facts rather than perceived status differences. So probably because we tried to avoid introducing any bias in the responses, we also could not prevent to elicit diffuse and therefore multi-interpretable answers.

But taking this possibility of alternative interpretations into account we can still conclude that there are visible differences between respondents from different departments. The establishment Stockholm, for instance, clearly favors its own department and in the Netherlands the only department that perceives Air France to be more in the lead with regard to their own function is Corporate Communication. The departments Cabin Crew, Information Services and Pricing & Revenue clearly perceive KLM as being “on top”. Because of the multi-interpretable characteristic that is mentioned above, we can conclude that in some cases actual dominance or superiority was measured, while in other cases unrealistic subjective perceptions of dominance were measured, suggesting some form of creativity.

The negative relationship with identification that we hypothesized did not come out however.

The above results lead us to some thoughts regarding factors that positively contribute to post-merger integration. These ideas will be discussed in the next section.

## **6.5 Managerial implications**

We found during our research period an overall decline of the perceived differences between the cultures of the two firms. These findings suggest a slow process and in that respect the chosen gradual form of the integration of Air France and KLM can be seen as a good choice.

Although it seems logical that different departments will experience a merger differently, it is important for managers to acknowledge this fact, and take it into account in their integration-related decisions. It is almost impossible, and probably counter-productive, to integrate every part of two large organizations in the same manner. Acknowledging the separate identities of departments will lead to a simultaneous process of high and low integration between the merged firms; which means that a single overall integration policy is not an option.

A particularly interesting and managerially relevant finding is that employees in low-integration departments can show stronger changes in their perceptions of the cultural differences between merging companies than their colleagues from high-integration departments. This means that while it is likely that most, if not all managerial attention will be focused on the high-integration departments, communication with low-integration departments during the postmerger period is very important in order to prevent possible rumor mills.

Our study also found evidence of the influence of national culture on the perceptions of employees. This finding underlines the argument in Chapter Two that it is difficult to estimate the depth of the influence of national culture on organizational culture, but that the influence itself is indisputable. Consequently it will be difficult for employees and managers to separate the two factors. In any case it is important to focus attention also on national culture because it definitely determines at least a part of the

perceptions of employees. National cultural differences should therefore be made explicit and their consequences subject of discussions in international M&As.

Identifying with a new firm is always difficult and it should be noted that this process may take a long time. Engaging in competition with the other firm will not enhance this process in any way as this study has shown. One could argue that a certain amount of “healthy” competition can stimulate employees to give the best of themselves, but in a merger it would be safer to strive towards developing a new sense of shared identity.

This dissertation has demonstrated that the perception that mobility between the two merged companies is possible, leads to more identification with the new super-ordinate organization. Providing information about the possibilities of mobility, or even actively promoting and accommodating such mobility could therefore be a wise procedure if increased identification with the new organization is deemed to be important.

The role of creativity in relation to identification with the merged firm is less clear, and seems to depend on moderating factors, such as the extent to which employees feel threatened by the merger and the trust in the managerial decisions. To completely erase a feeling of threat seems an impossible task, but the level of threat can be lowered by creating an environment of open communication. Making decisions explicit can at least remove some of the uncertainty. Bad news is often better than no news.

The emphasis of this dissertation has been on the analysis of quantitative data. The interviews and observations have served to help interpret and to illustrate these findings. Using both these forms of measurement does not mean that this study is not characterized by a number of limitations. These limitations will be discussed in the next section followed by suggestions for future research.

## **6.6 Limitations and suggestions for future research**

In order to fully understand the processes that are involved in the integration period of international mergers, more study is necessary. This particular study had a number of limitations, each of which points at future research challenges.

The first limitation is that our study involved a single case. Even though it is concentrated on a large organization, showing a considerable number of factors that act and counteract in a postmerger integration process, it is still just one case which limits the possibility to generalize. It is however possible to develop certain notions that are applicable in comparable situations as we have done in this concluding chapter. Future research could look at a larger number of cases, or conduct more extensive studies of single cases that differ in relevant dimensions.

The second limitation is that this dissertation focused on the acquired side of the merger, meaning that only one of the merging firms was analyzed. The arguments for doing so were discussed above in more detail. It enabled us to observe the behaviors that were expected on the basis of the social identity theory perspective. Future research could compare the reactions of both the acquired and the acquiring firms.

The third limitation is that we restricted our study to a limited number of variables. Our questionnaire was extensive and so were our data from the interviews. Nevertheless in this dissertation we have chosen to concentrate on two particular perspectives in order to maintain focus. Future research can elaborate on this case as well as other M&As, looking at a number of alternative variables.

The fourth limitation is that we used a certain time frame as our object of study. Three and a half years seems to be a long period a priori but at the end of our study we noticed several occurrences that could be valuable to continue to observe. Future research could analyze an even larger time frame than has been done in this study. Particular in a case like Air France-KLM, where we have discovered a very slow pace of transformation, it would be interesting to look at the results of the acquisition after more than four years.



All in all this study has revealed a complex interplay of factors influencing the dynamics of perceptions of cultural differences and identification during postmerger integration. We hope that in future studies we will be able to continue to unravel the human dimension of this important type of organizational process.

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## Summary

Despite the continuing propensity to expand organizations by means of mergers and acquisitions the actual success of this strategy seems to be questionable. Insight in the factors leading to success or failure of M&As might therefore be helpful, and in particular insights in postmerger processes. To answer to this need several researchers have studied the postmerger integration process. In this field the focus on how employees perceive postmerger processes, and the effects of these perceptions is relatively recent. But some researchers acknowledge that the experiences of all members of an organization going through a transformational change process are important.

This study focuses on culture and social identity during postmerger integration.

The more abstract concept of culture is explored on the basis of employee perceptions. During a merger the characteristics of the two organizational cultures that are fusing will become more visible to the members. Hence we explored the changes in perceived cultural differences during the postmerger integration process. We collected data from an acquisition between two airlines: Air France and KLM. In the design of this study we have chosen to concentrate on the acquired company (KLM). The research has been done over an extensive period of time, using the longitudinal approach.

A number of propositions have been formulated with regard to the effect of a merger on perceived differences in organizational cultures. The assumption was that changes would occur over time and that different forms of integration would result in different changes in perception. Besides the above focus on shifts in organizational culture perceptions we also examined the influence of national culture on the perception of organizational cultural differences. We used data both from a survey and from interviews. National culture is described by using the results from the most prominent international studies. The formulated hypotheses were tested on our data and gave some clearly confirmatory and some mixed results.

Furthermore we examined in this study the meaning and significance of the social identity of the employees of an organization during the acquisition. Compared with

culture, social identity is a less abstract and more directly experienced concept. We were interested in factors influencing identification with the merged firm. This is important, because organizational identification has been shown to be associated with a number of positive organizational outcomes. Based on social identity theory, we formulated hypotheses pertaining to the effects on identification with a merged firm of three types of responses from acquired-firm employees. Social competition and social creativity were argued to have a negative effect on identification with the merged firm, while social mobility was argued to have a positive effect. The data from KLM employees after the acquisition by Air France generally confirmed our hypotheses. The results show that in particular the identity responses social competition and social mobility have an important influence on identification with the merged firm. The effect of social creativity was less clear, but this may be at least partly due to problems in operationalizing this rather elusive concept.

This dissertation consists of six chapters. In chapter one the problem statement is formulated as well as the research questions. This chapter gives the reader an overview of the extensive research on mergers and acquisitions. It discusses the different motivations for M&As, the developmental processes of M&As, and various aspects of post-M&A integration processes, like the speed of the integration and the distinction between task and human integration, and the distinction between different in the process.

Chapter two offers insight in the concepts that have a central position in this dissertation. Identity and social identity are explored by discussing the social identity theory, from its foundation to recent outcomes of laboratory research. This overview shows that field research applying social identity theory to postmerger processes is virtually nonexistent so far.

Organizational culture can be seen from several perspectives and these are explored and categorized. Because the merger studied is between organizations of different nationality, the major studies of differences between national cultures are also discussed. Chapter two concludes with a theoretical exploration of the relationship of the two concepts: organizational culture and social identity.

Chapter three presents the methodology of the empirical study. It explains the case and several developments that led to this merger, as well as the research process. In addition it discusses the sample as well as the variables used in this empirical research.

Chapter four presents the empirical results with regard to the concept culture. On the basis of four hypotheses it explores changes in the perception of cultural differences of the members of the organization. The results show that over time perceived differences in organizational cultures first increase and subsequently decrease, as predicted, but the changes are too small to reach significance. Furthermore the results show that employees of different departments have significantly different perceptions of cultural differences. Finally, national cultural differences are shown to have a positive influence on perceived differences of the organizational cultures.

Chapter five explores the identification process and in particular the strategies that employees use in order to compensate lower status feelings. In line with predictions based on social identity theory employees who perceive mobility opportunities identify more with the superordinate organization, and employees who engage in social competition actions identify less with the new organization. However, the effect of social creativity, as a means of members of a lower-status organization to upgrade their status feelings were inconclusive. The reason is most probably the imperfection of the measure of social creativity employed in the study.

Chapter six summarizes all the conclusions of this study and in addition formulates some managerial implications.

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